



International Monetary Fund
May 2019

Outlook for Latin America and the Caribbean

Alejandro Werner
Director
Western Hemisphere Department



Presentation Outline

- I. Key Messages**
- II. Global Overview**
- III. Regional Outlook**
- IV. Country Issues**

Key Messages

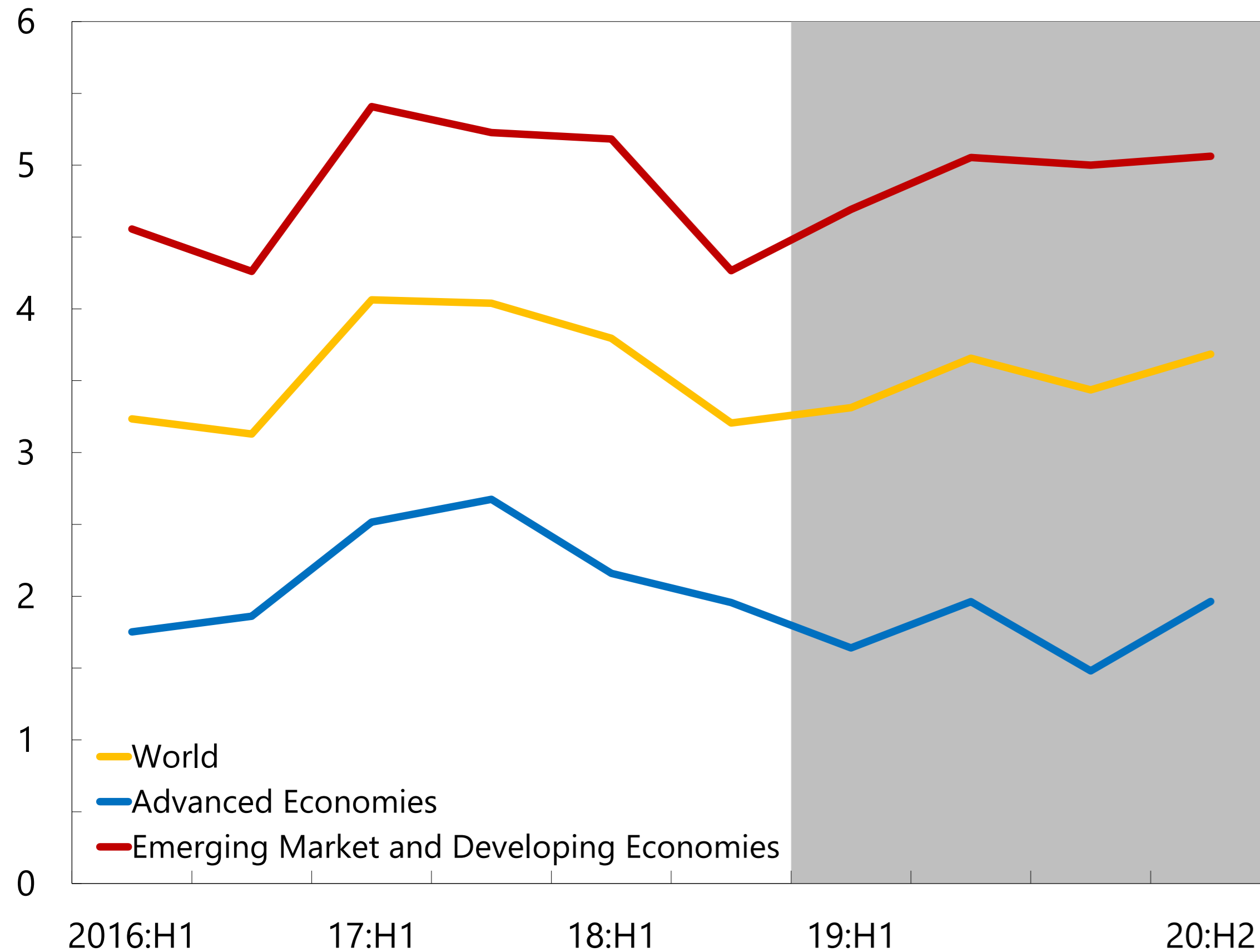
- **Global environment is challenging: global growth has slowed; commodity prices are not expected to pick up strongly.**
- **Domestic policy uncertainty in the largest economies is driving the outlook.**
- **Growth in the LAC region remains modest, but looking ahead is likely to improve somewhat in 2019–20.**
- **Risks are tilted to the downside, though: lower global growth and commodity prices, increased trade tensions.**
- **Policies need to strike a balance between rebuilding buffers and supporting the recovery.**
- **Long term growth is contingent on structural reforms.**

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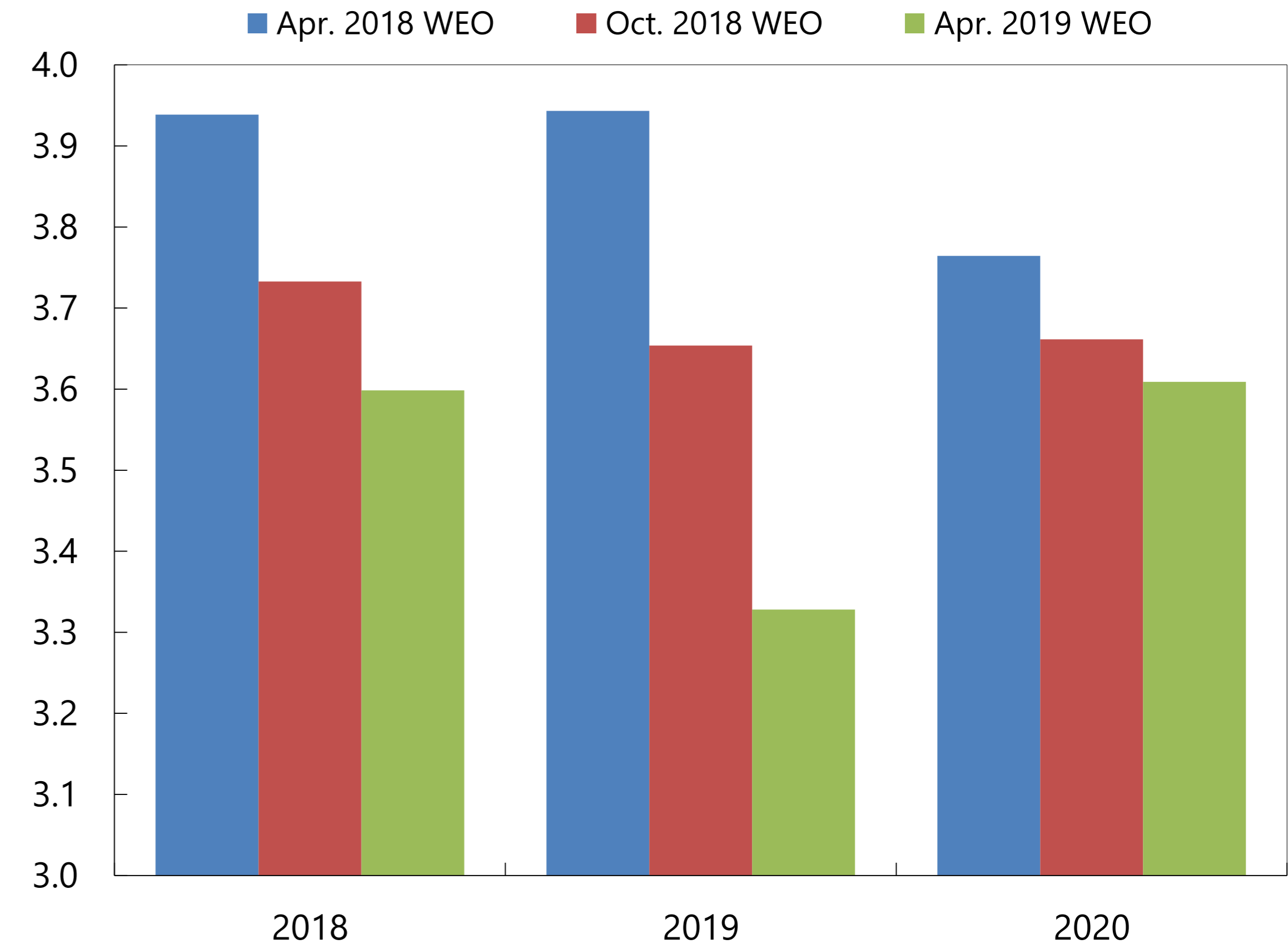
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Near term moderation, but picking up in 2020

Half-Yearly Growth Rates
(Annualized semi-annual percent change)



World Growth Forecasts
(Percent)



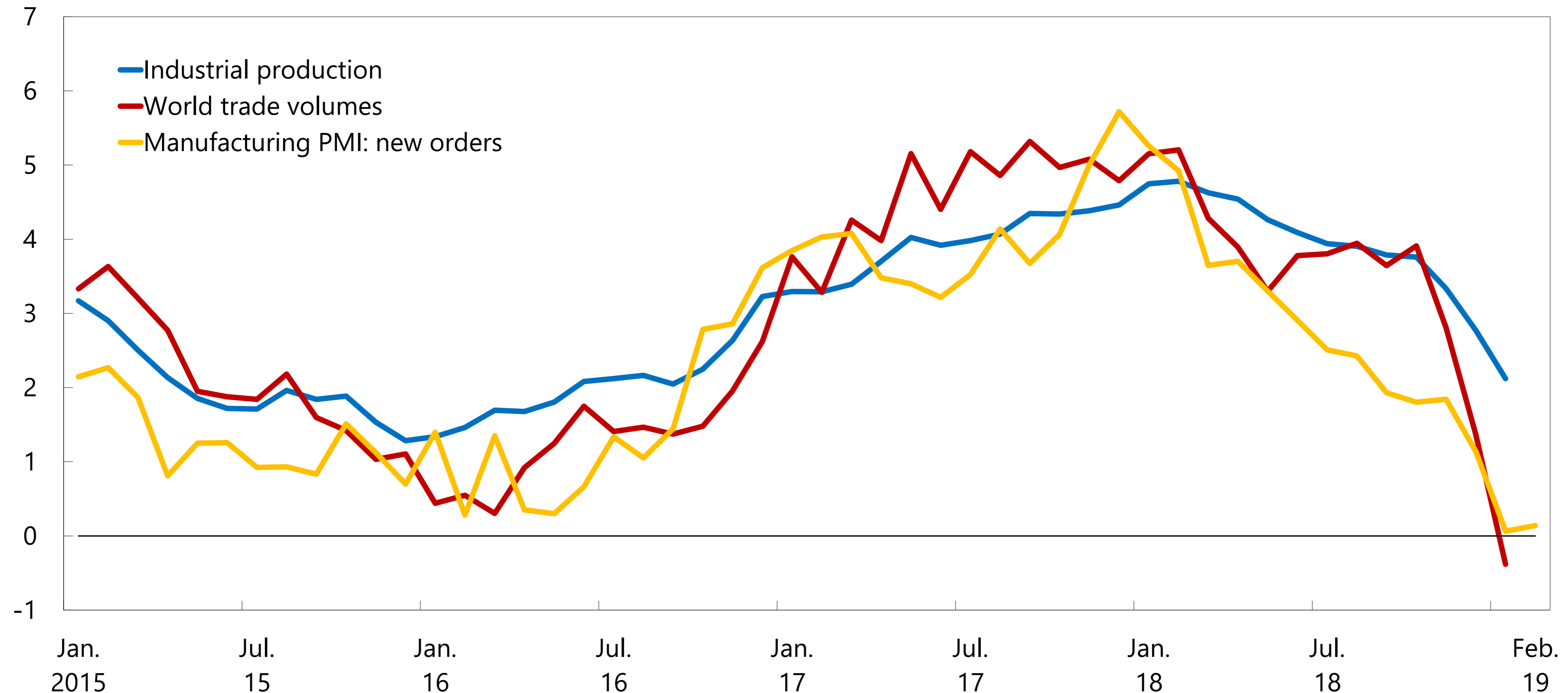
Source: IMF staff estimates.

Source: IMF staff estimates.

Global trade and production softened against a backdrop of trade tensions and policy uncertainty

World Trade, Industrial Production, and Manufacturing PMI

(Three-month moving average, year-over-year percent change; Deviations from 50 for Manufacturing PMI)



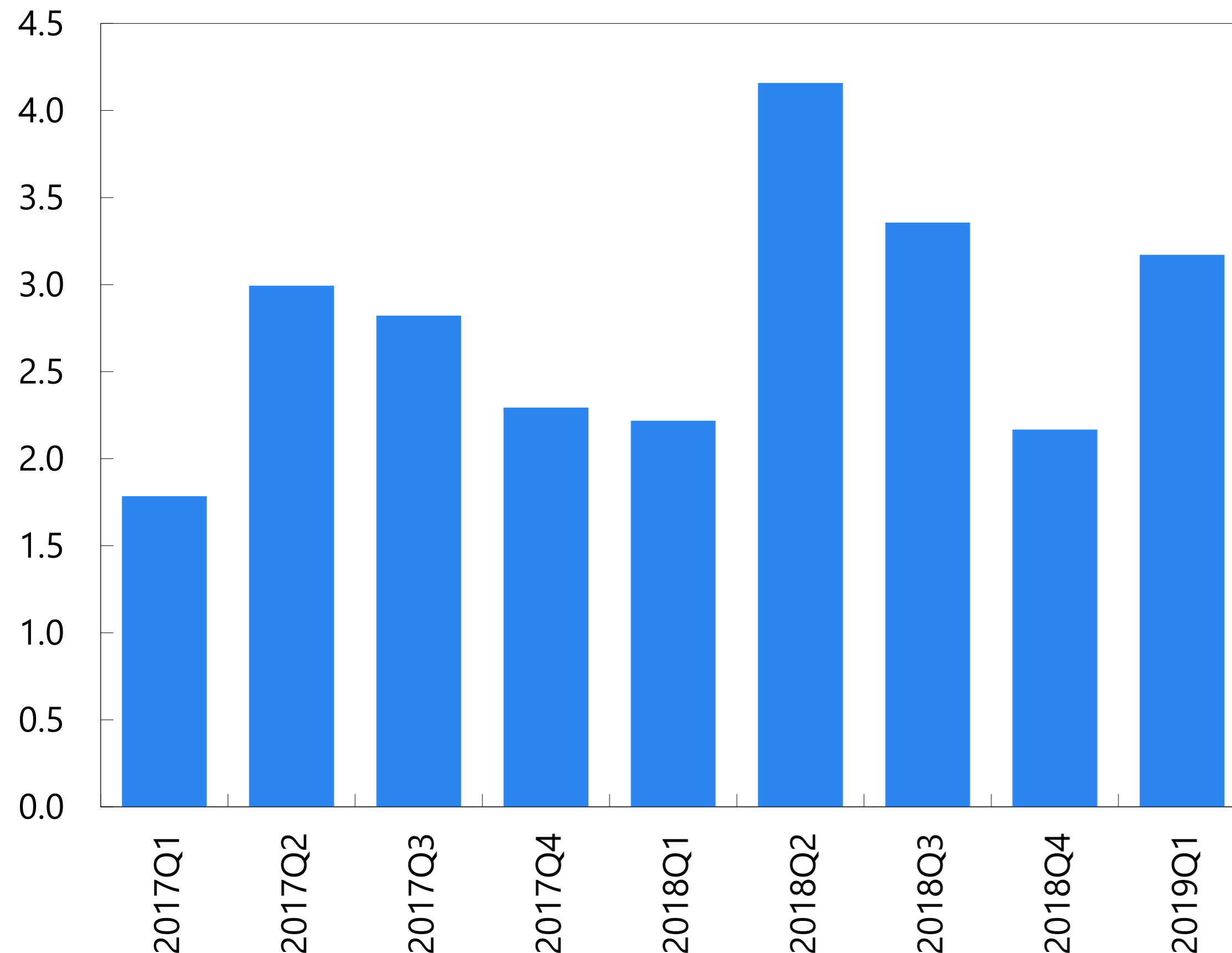
Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and Baker, Bloom, and Davis (2016).

Note: PMI = purchasing managers' index.

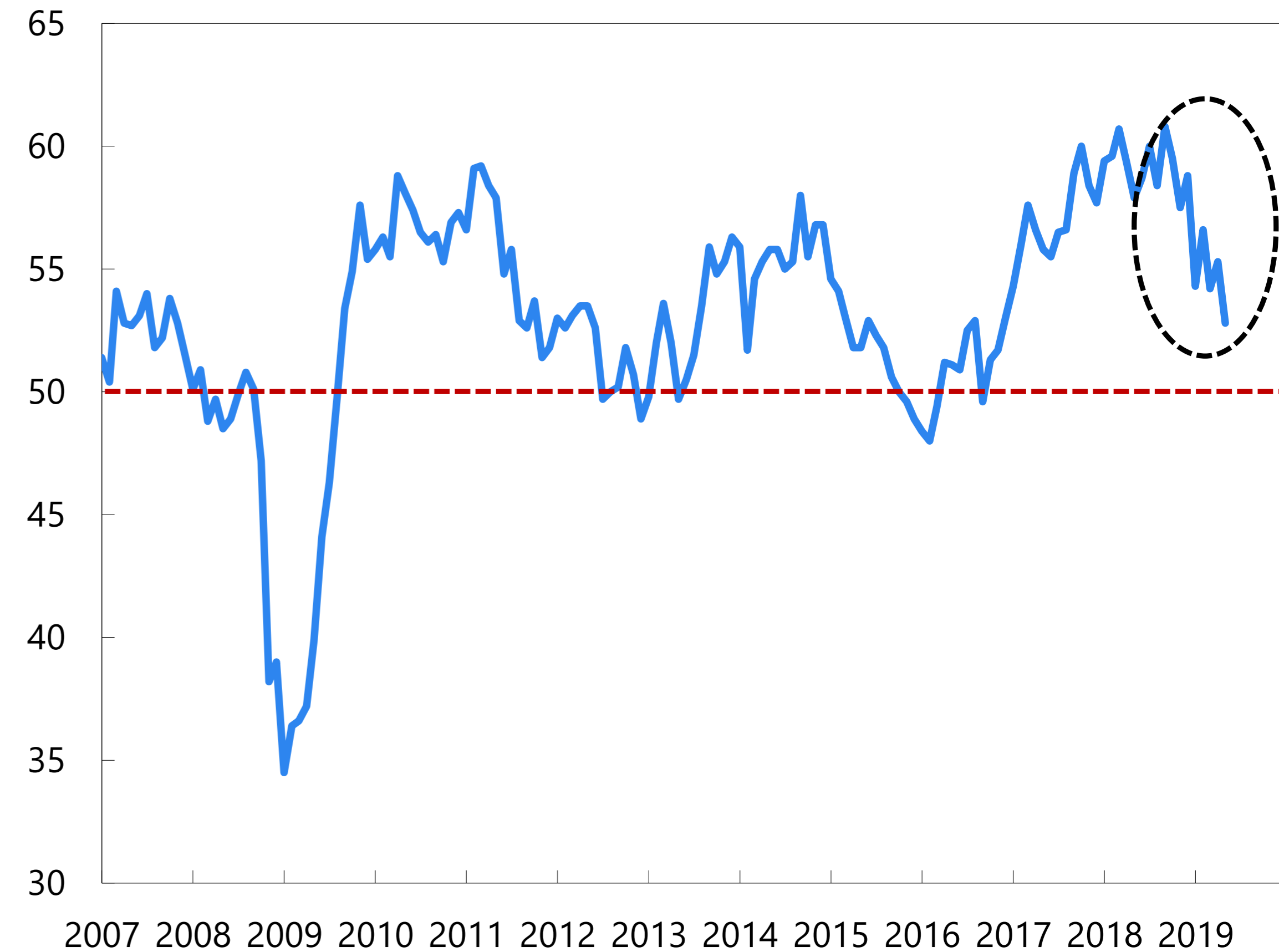


US: strong growth; gradual slowdown expected

United States: Real GDP Growth
(Quarter-over-quarter; annualized)



ISM Manufacturing: PMI Composite Index
(Seasonally adjusted; 50+ = expansion)



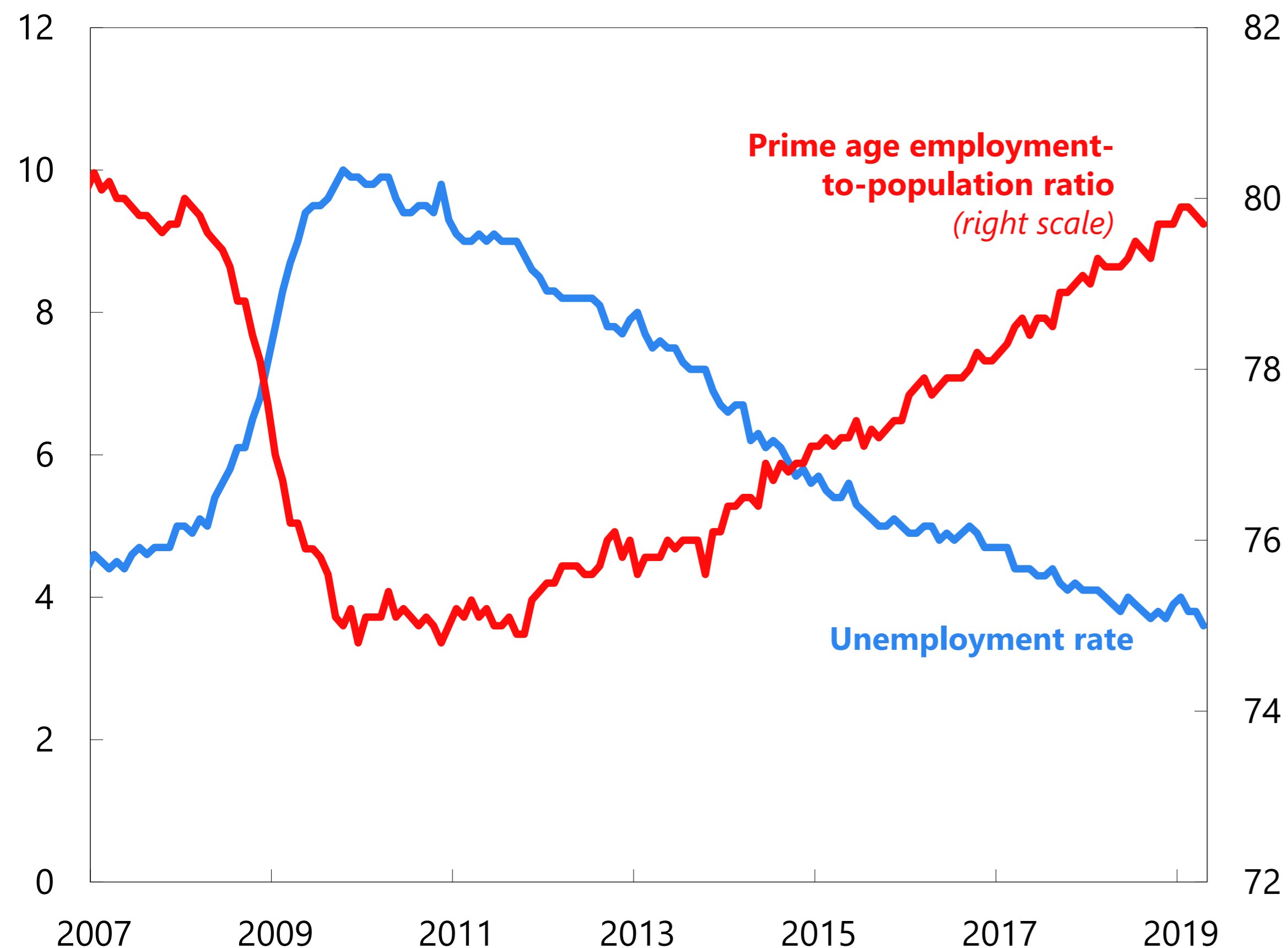
Sources: Bureau of Economic Analysis; and IMF staff estimates.

Sources: Institute for Supply Management; and IMF staff calculations.

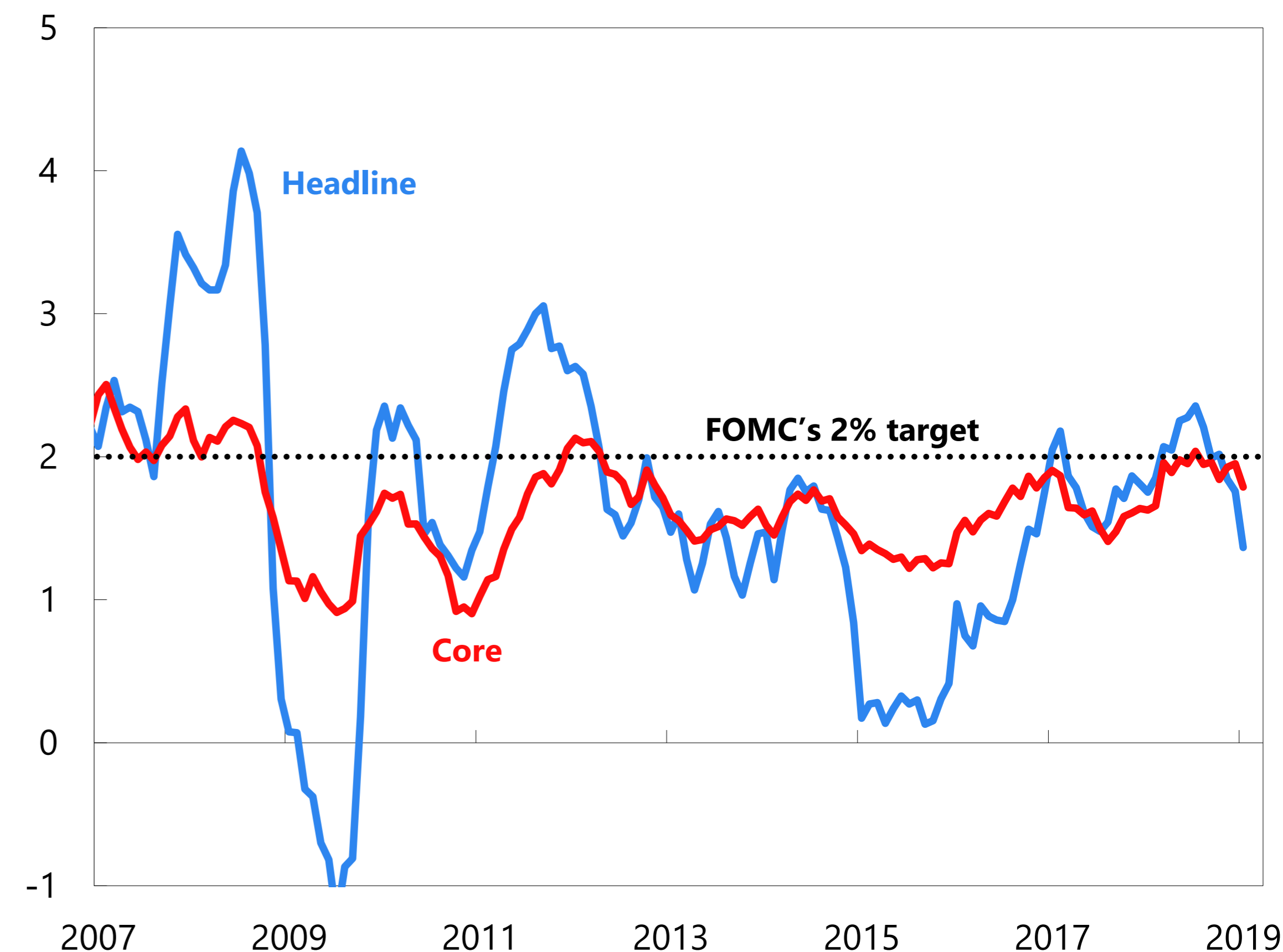


An enduring expansion with low inflation

United States: Labor Market Utilization
(Percent)



United States: PCE Inflation
(Percent)

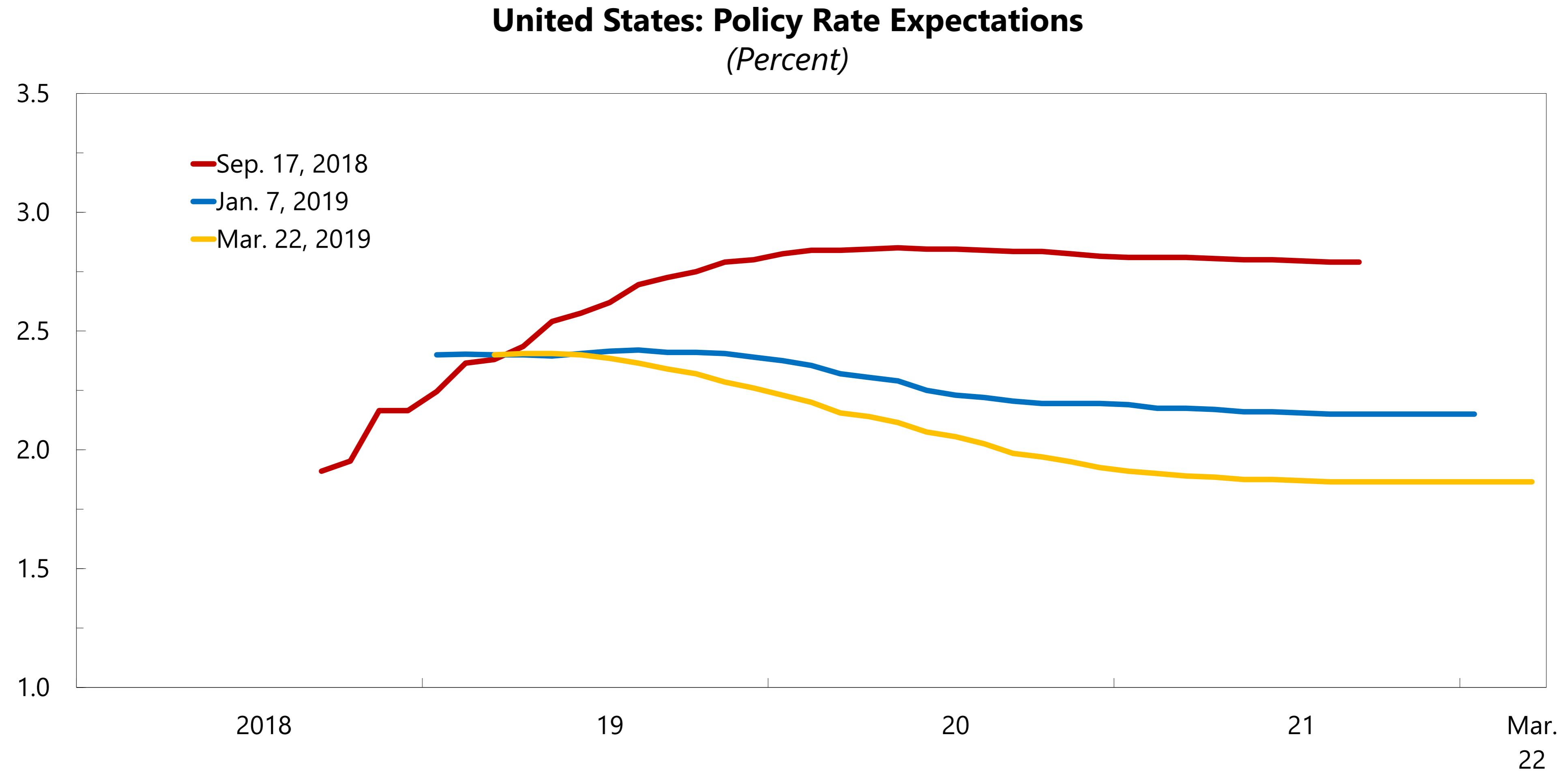


Source: US Bureau of Labor Statistics.

Source: US Bureau of Economic Analysis.
Note: PCE = personal consumption expenditure.



Monetary conditions in the US: Expected rates were revised down

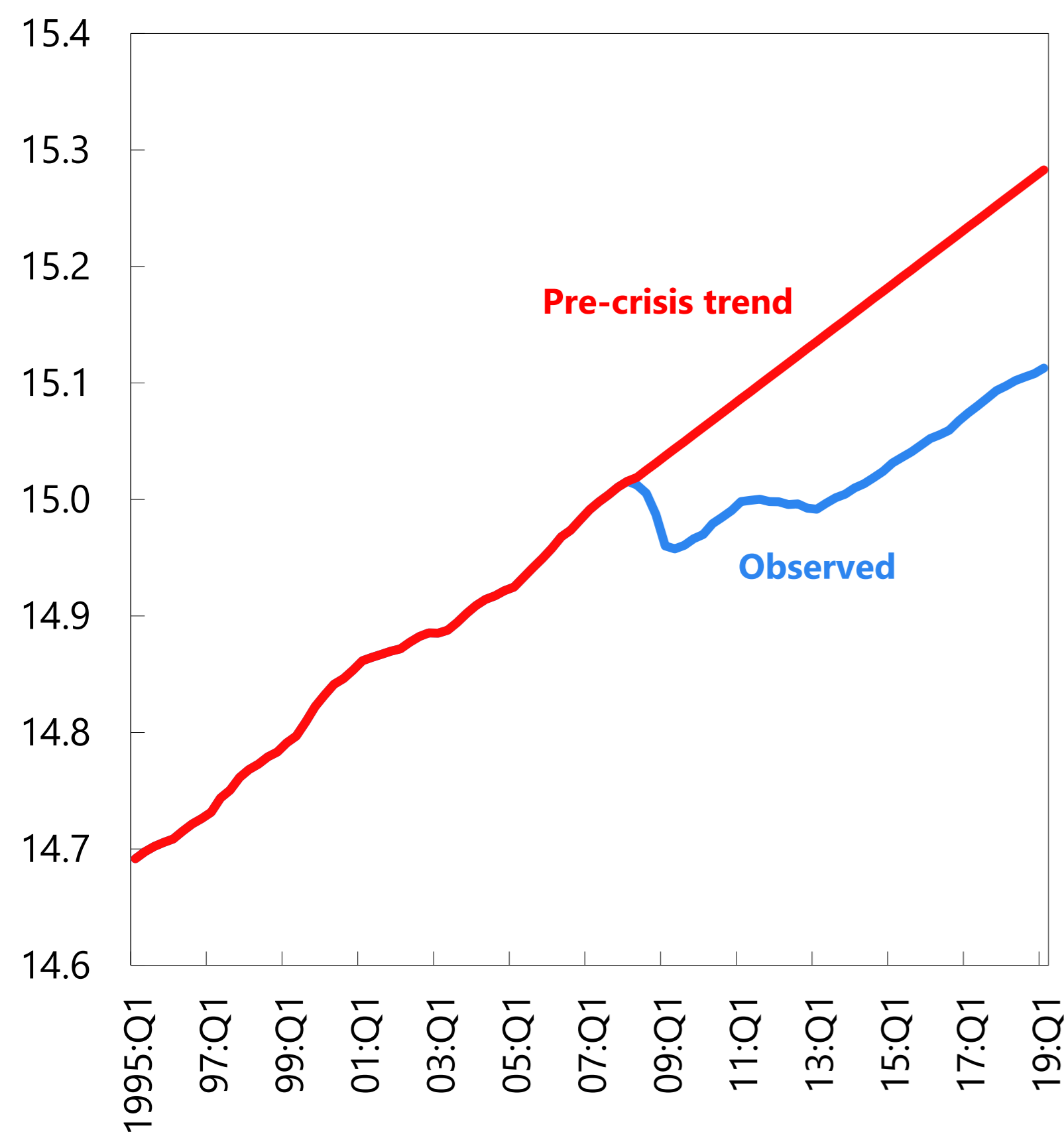


Source: Bloomberg Finance L.P.



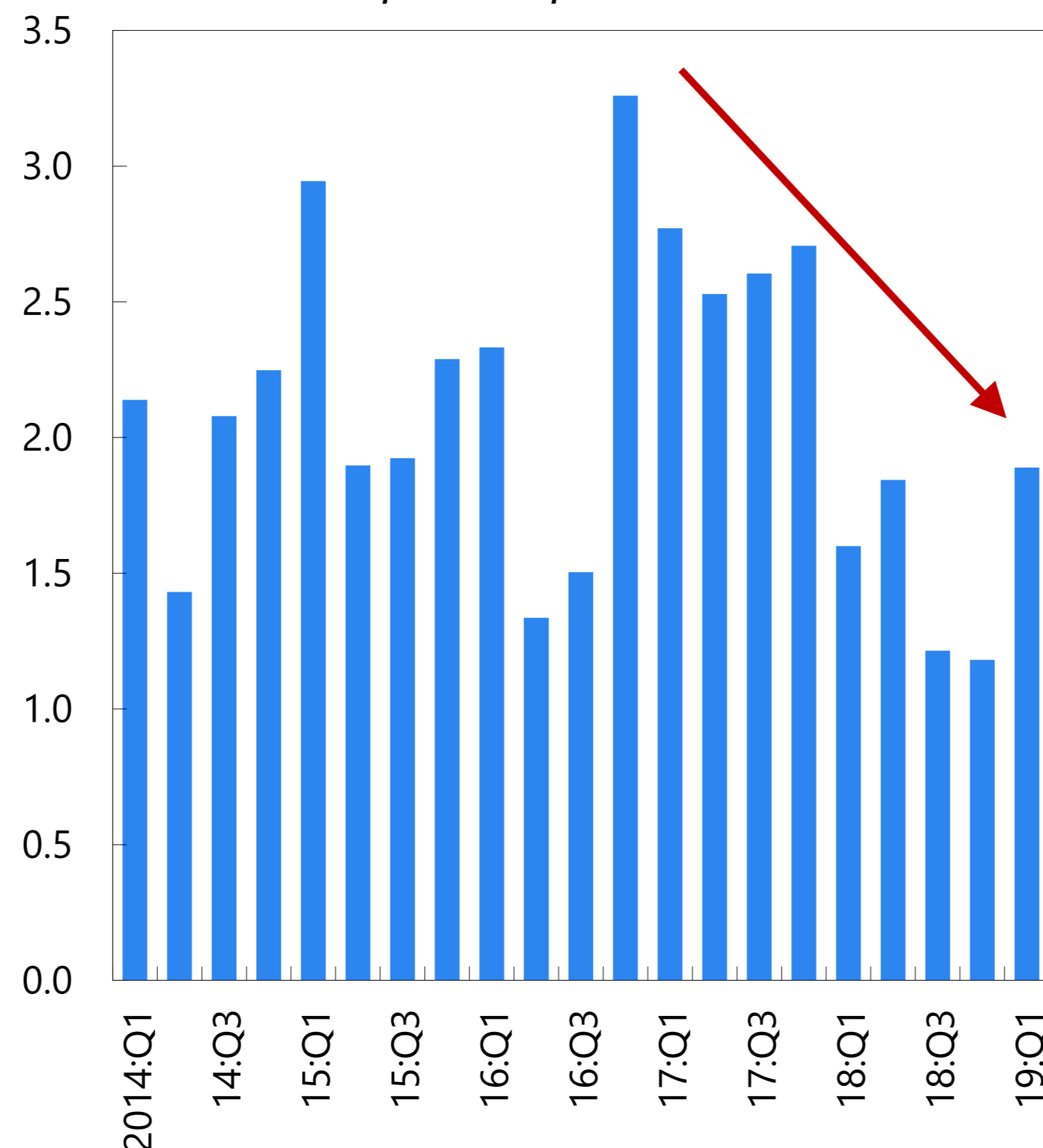
Real GDP in the European Union remains well below pre-GFC trends, and growth softened in 2018

European Union: Real GDP
(Seasonally adjusted; in log scale)



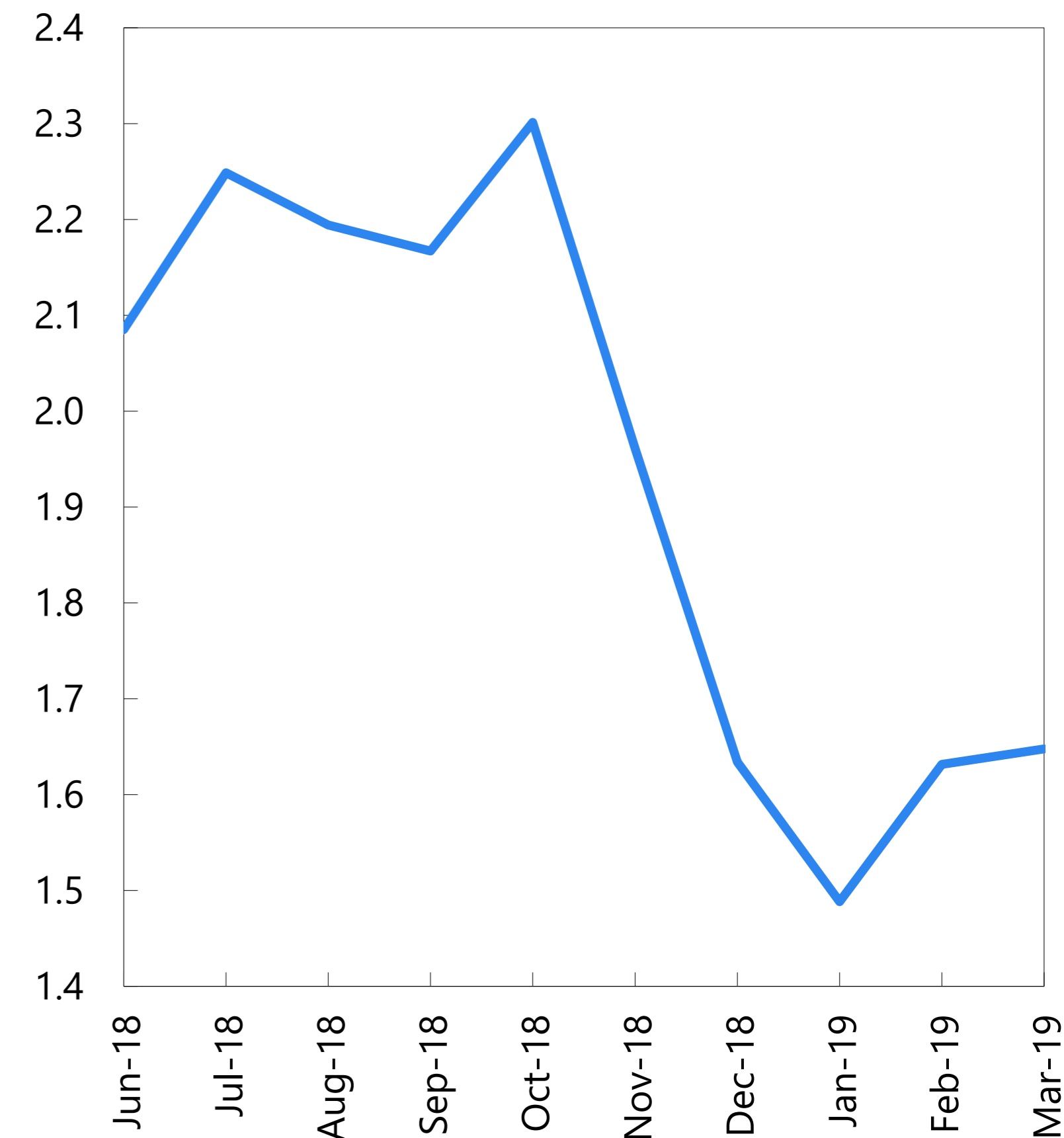
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

European Union: Real GDP Growth
(Seasonally adjusted annualized quarter-over-quarter; percent)



Sources: Eurostat; and Haver Analytics.

European Union: Inflation
(Percent change)

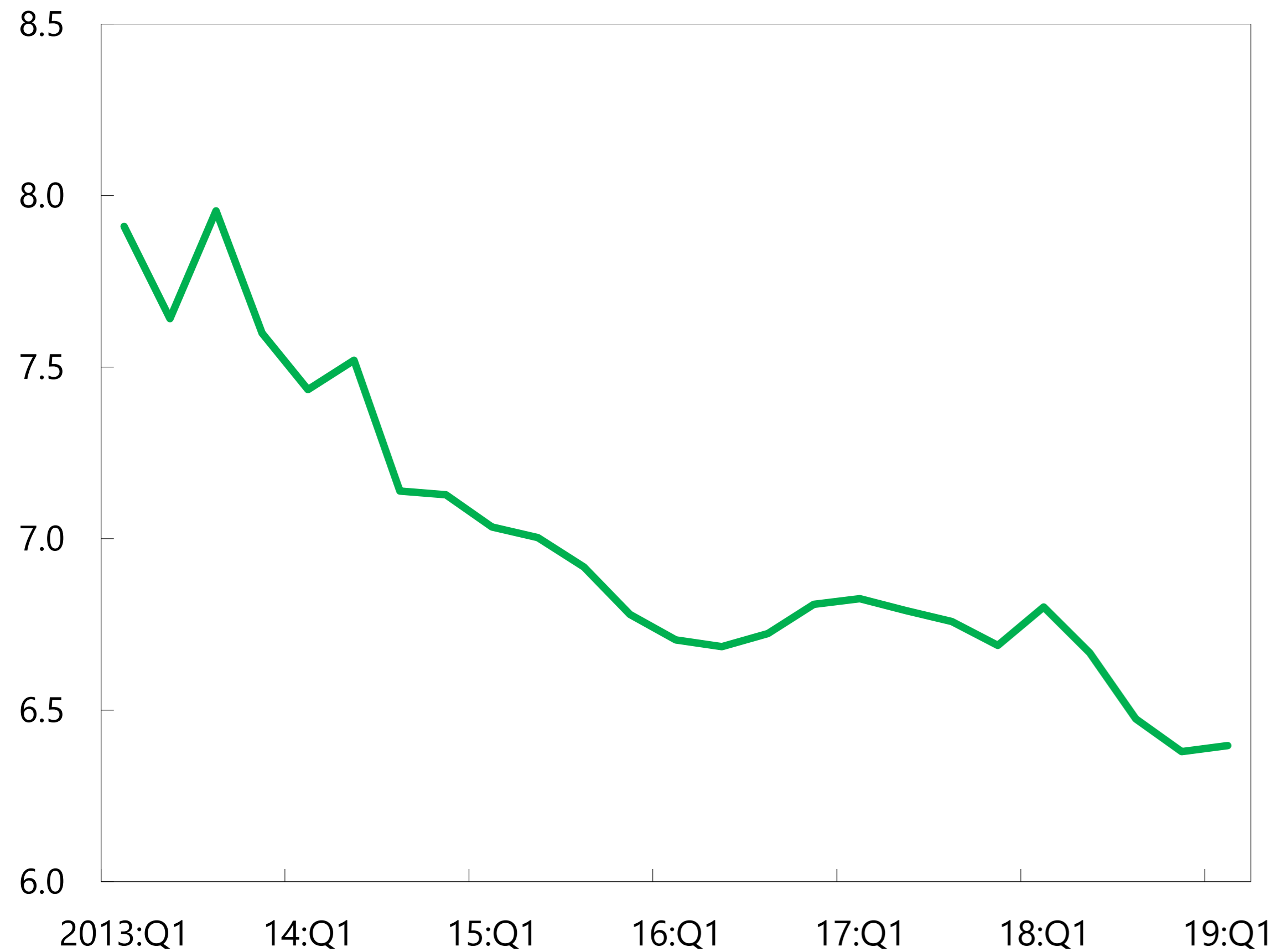


Sources: European Central Bank; and Haver Analytics.

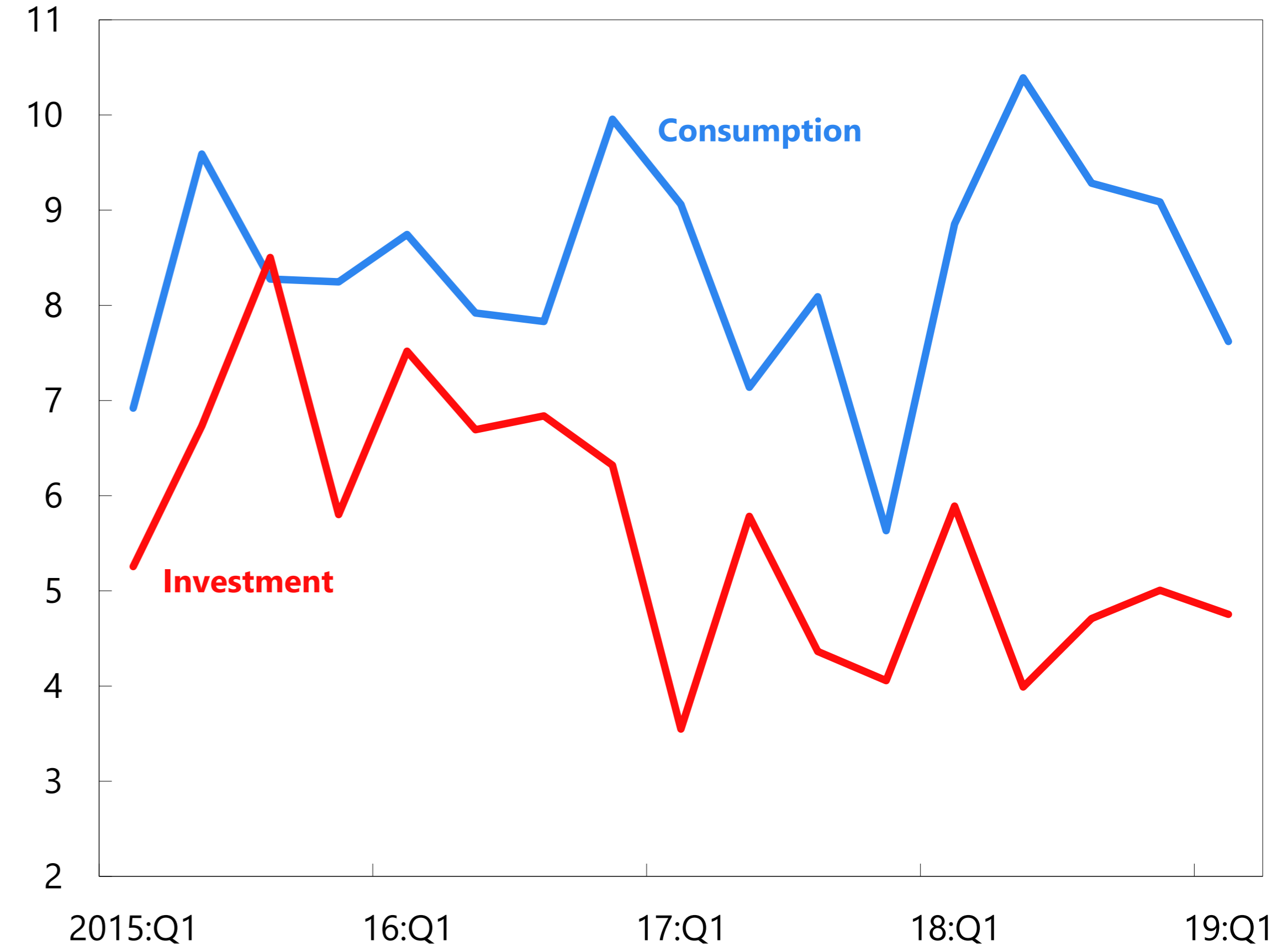


Economic growth in China is at its lowest in a decade as the country transitions from industry-based growth to consumption and services

China: Real GDP Growth
(Year-over-year percent change)



China: Real Consumption and Investment Growth
(Year-over-year percent change)



Sources: China National Bureau of Statistics; and Haver Analytics.

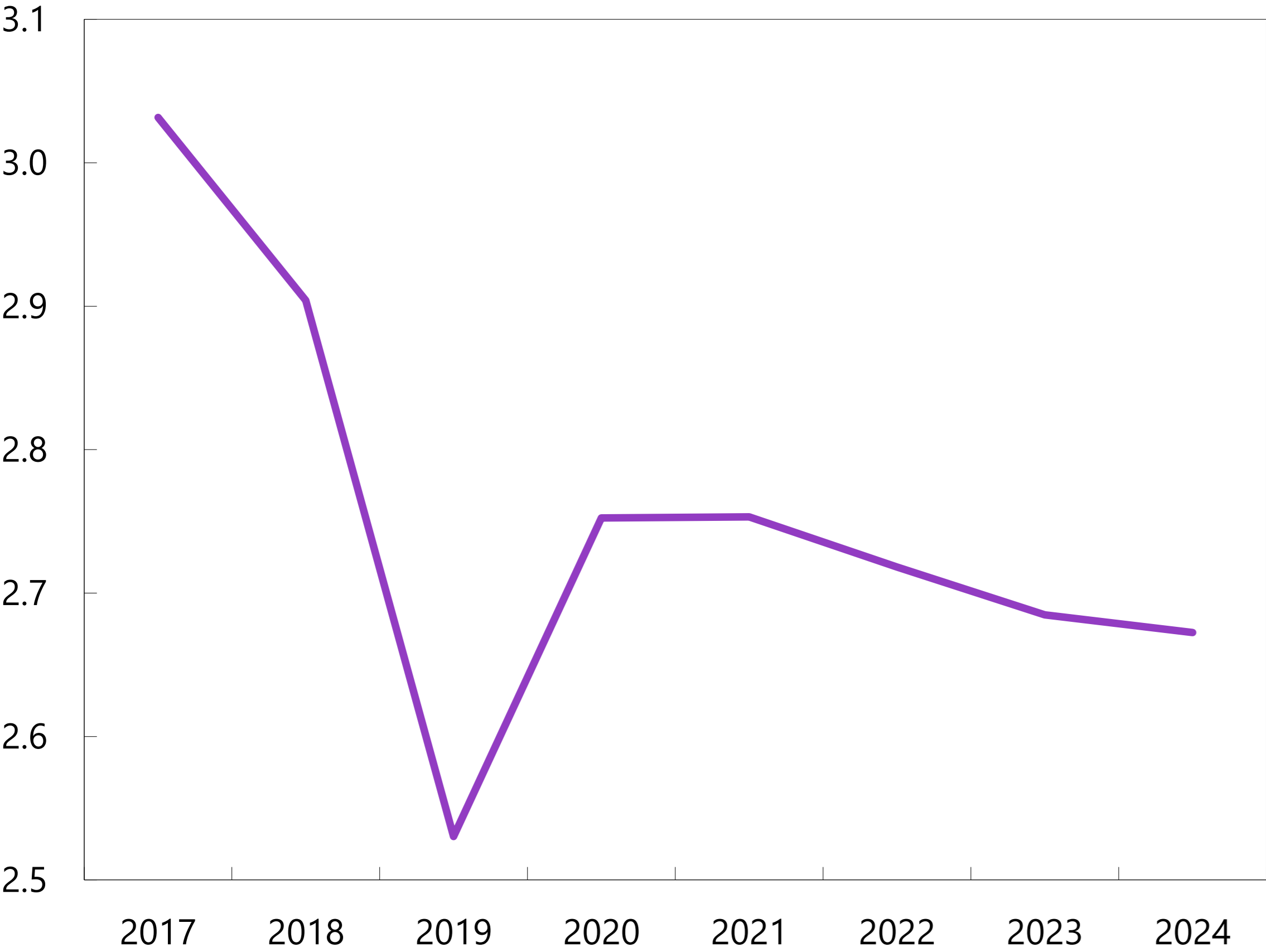
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

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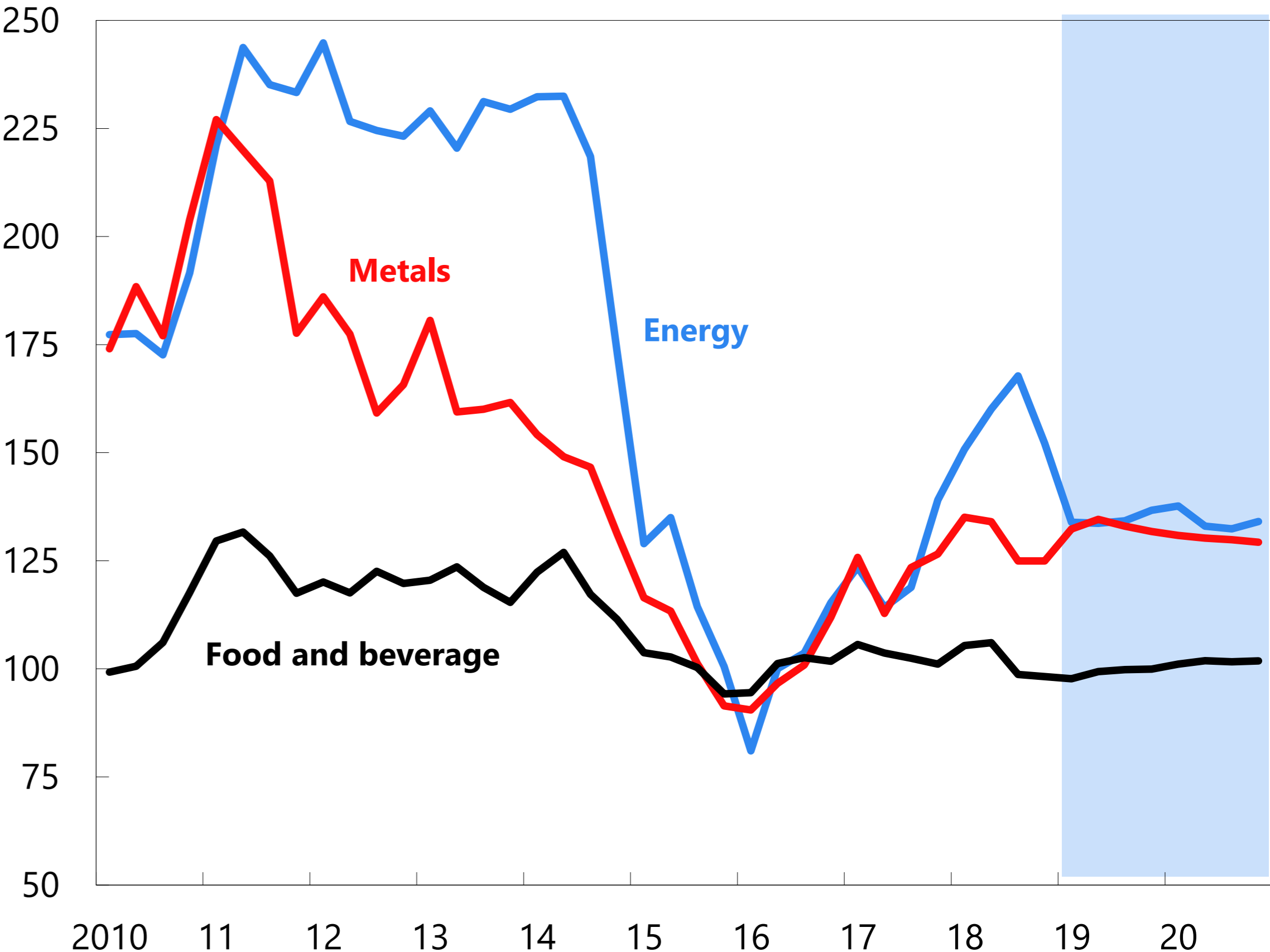
LAC trading partners expected to grow below world's average, rendering the growth prospects less optimistic

LAC: Trading Partners Real GDP Growth
(Year-over-year percent change)



Source: IMF, World Economic Outlook (GEE) database.
Note: Based on data for partner countries that together account for 100 percent of trade of reporting country. Weighted by exports.

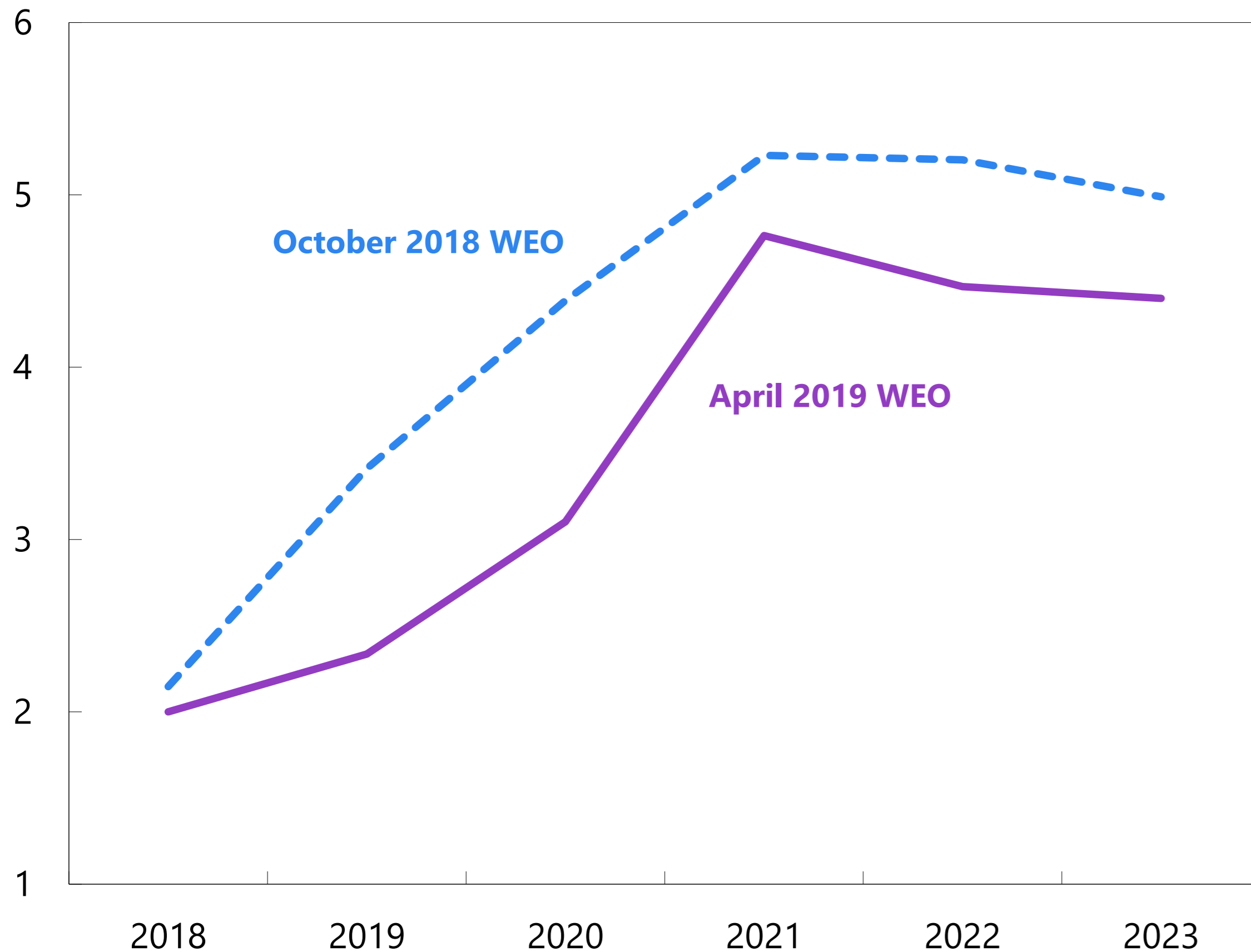
Global Commodity Price Indices
(Index: 2016 = 100)



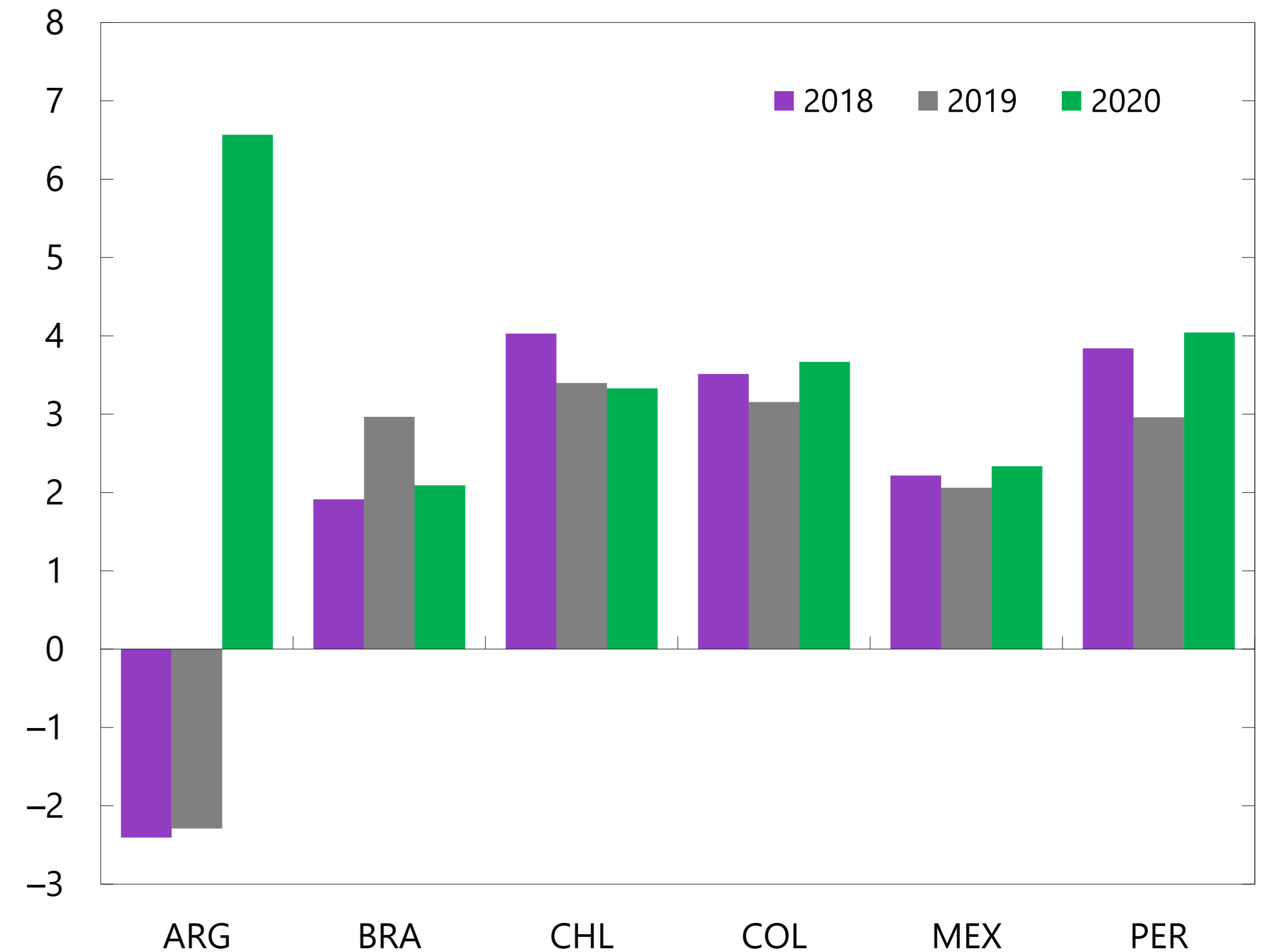
Sources: Bloomberg Finance L.P.; IMF, World Economic Outlook database; and IMF staff estimates.

Private consumption and credit continue to drive growth, while the outlook for investment has been downgraded

LAC: Real Gross Fixed Capital Formation Growth
(Year-over-year percent change; excl. VEN)



Real Private Consumption Growth
(Year-over-year percent change)



Source: IMF, World Economic Outlook database.

Source: IMF, World Economic Outlook database.

Projections

Latin America and the Caribbean: Real GDP Growth (Percent)

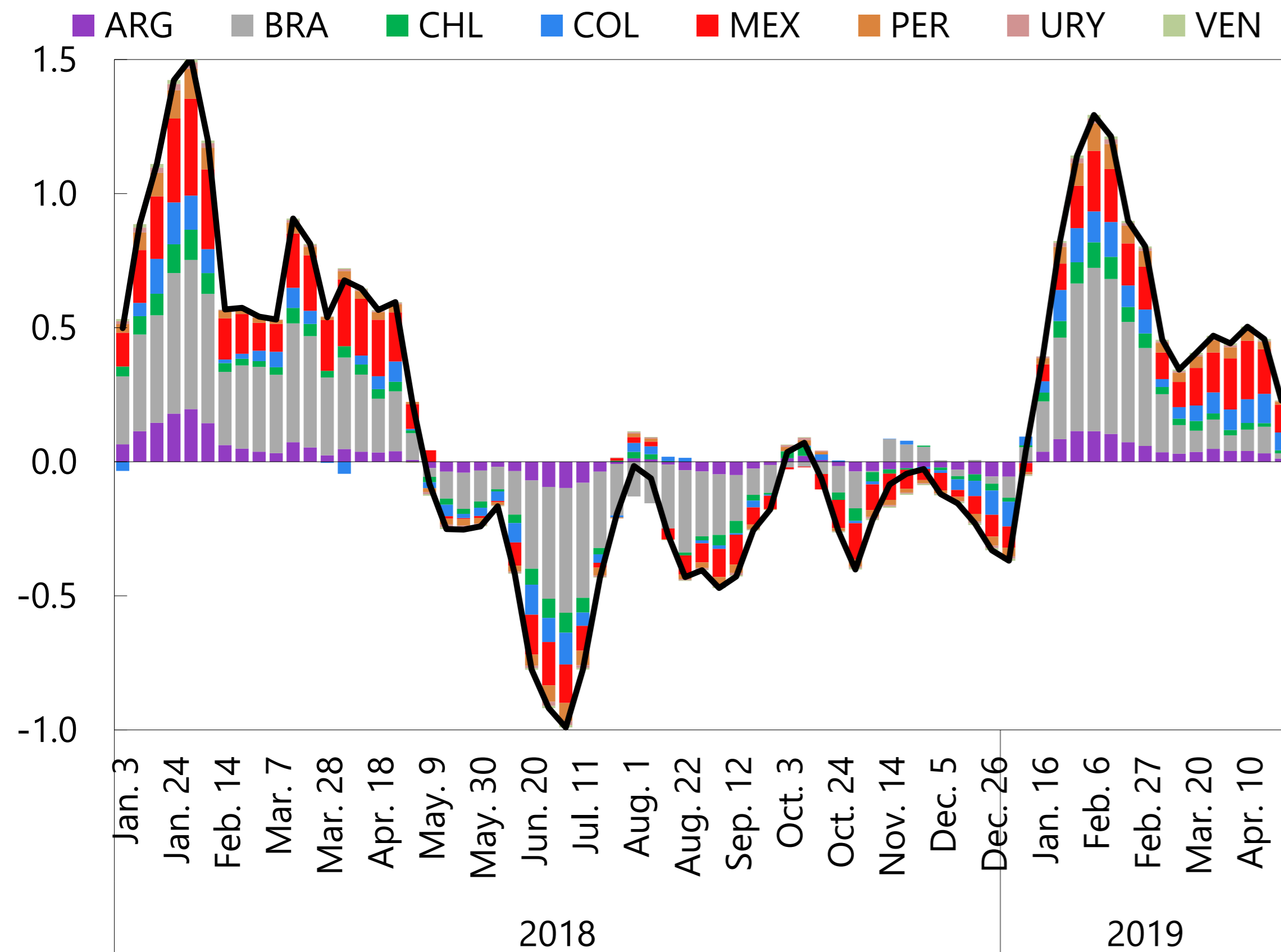
	2017	2018	Projections	
			2019	2020
LAC	1.2	1.0	1.4	2.4
LAC excluding Venezuela	1.9	1.7	2.0	2.6
South America	0.6	0.4	1.1	2.4
Argentina	2.7	-2.5	-1.2	2.2
Brazil	1.1	1.1	2.1	2.5
Chile	1.3	4.0	3.4	3.2
Colombia	1.4	2.7	3.5	3.6
Peru	2.5	4.0	3.9	4.0
Mexico	2.1	2.0	1.6	1.9
CAPDR	4.0	3.9	3.8	3.9
Caribbean				
Tourism dependent	1.2	1.6	2.0	1.9
Commodity exporters	-1.0	0.9	0.8	5.6

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: PPP GDP-weighted average. South America excludes Guyana and Suriname. Difference based on rounded figures for the current and October 2018 *World Economic Outlook* forecasts. **Green/red** denotes **upward/downward** revision.

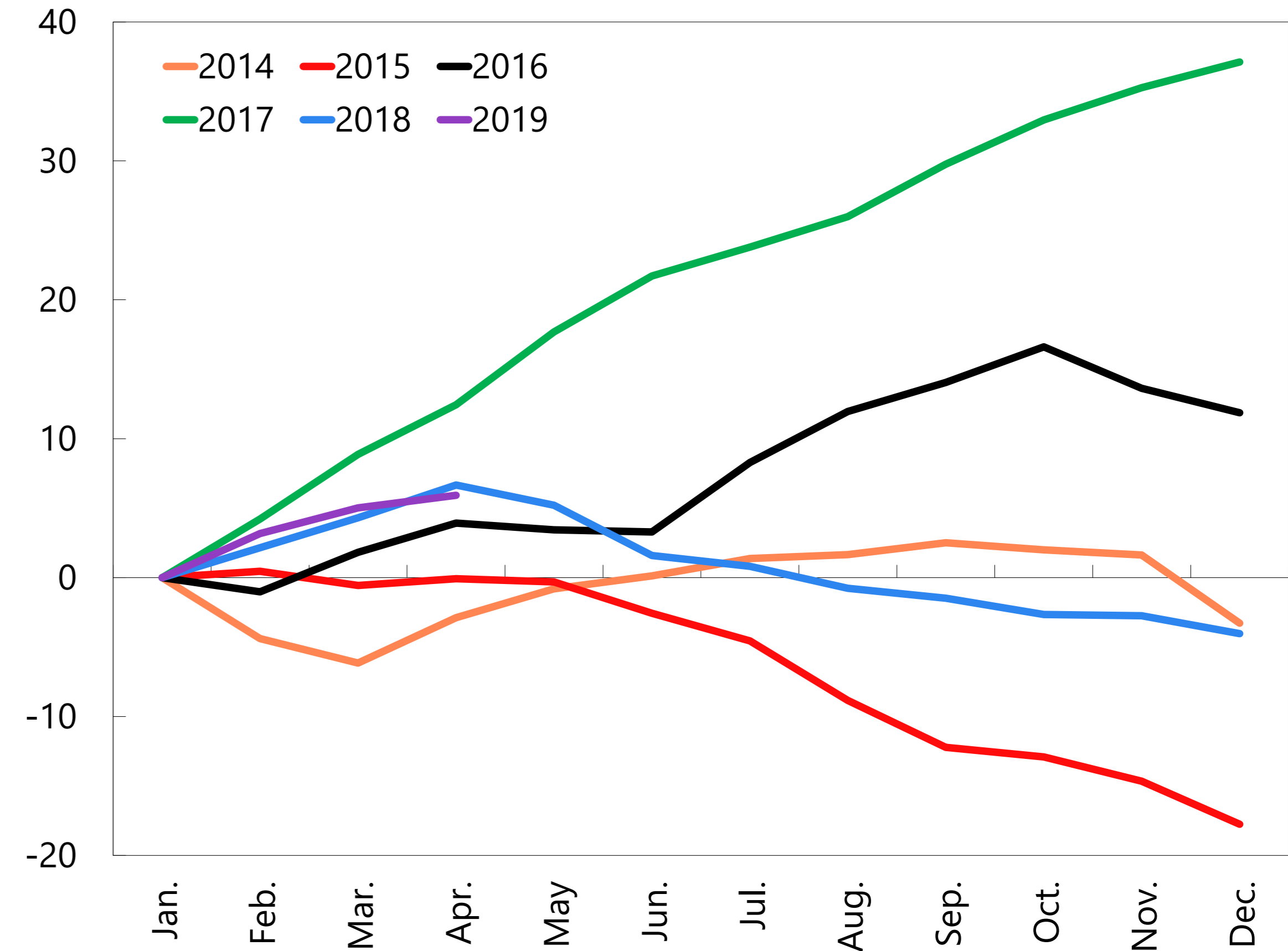
On the positive side, capital flows show some signs of recovery after a poor performance in 2018...

Latin America: EPFR Equity and Bond Flows
(US\$ billions; 4-week moving average)



Sources: Emerging Portfolio Fund Research (EPFR) database; and IMF staff calculations.
Note: Data as of April 24, 2019.

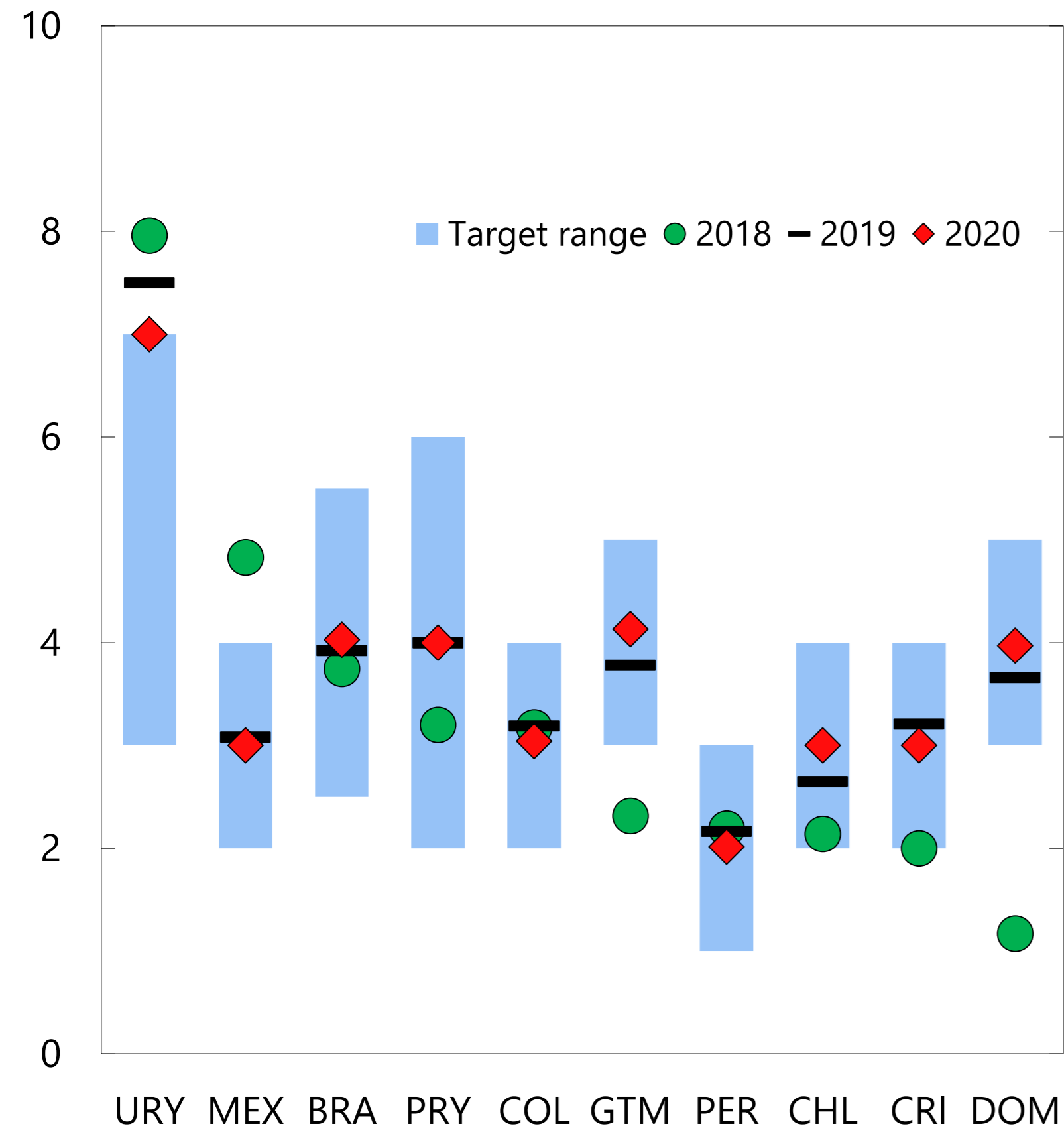
Latin America: EPFR Equity and Bond Flows
(Cumulative flows in US\$ billions)



Sources: Emerging Portfolio Fund Research (EPFR) database; and IMF staff calculations.
Note: Data as of April 24, 2019. Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

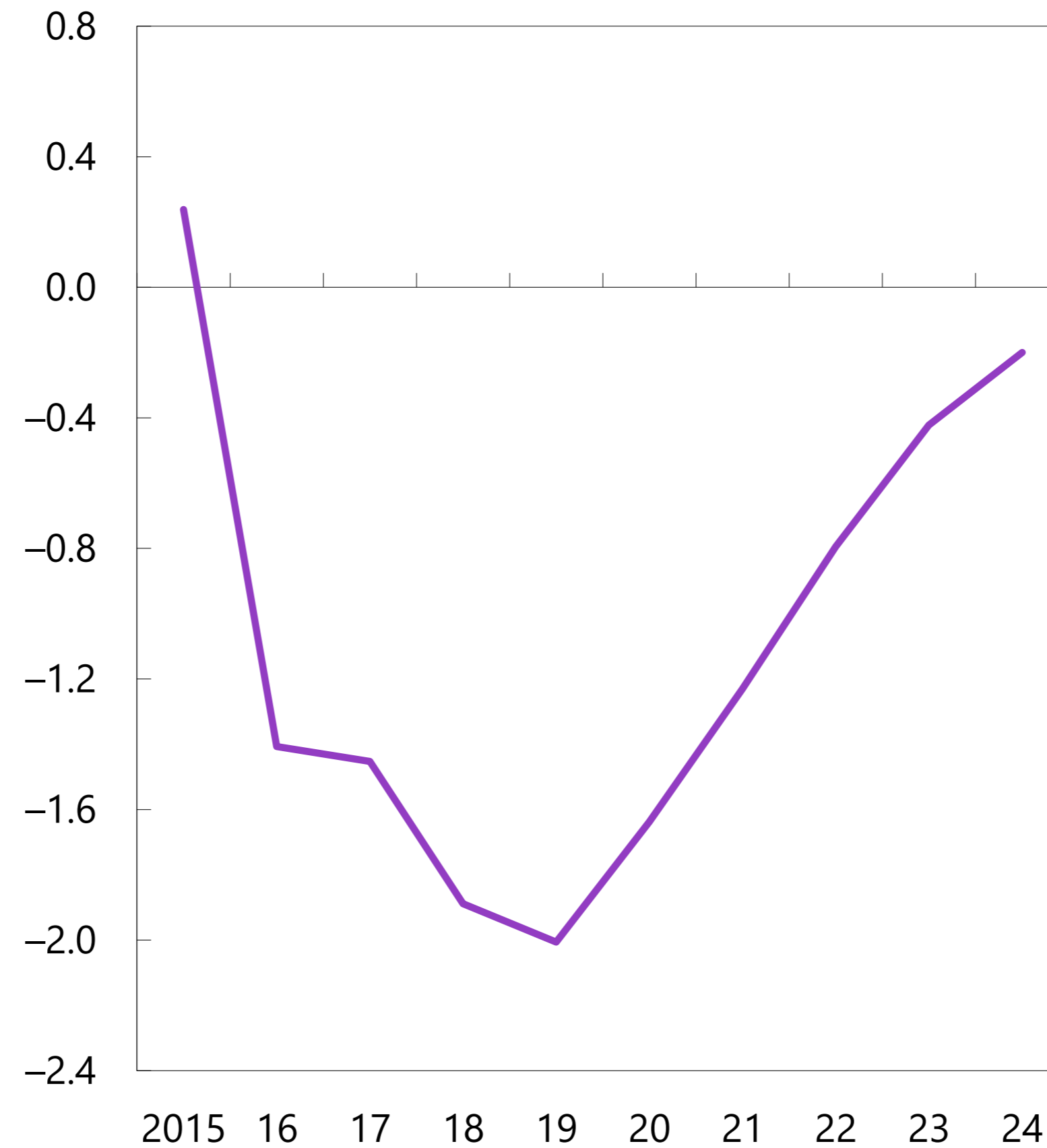
... and domestic and external imbalances are fading away

Inflation
(Percent change; eop)



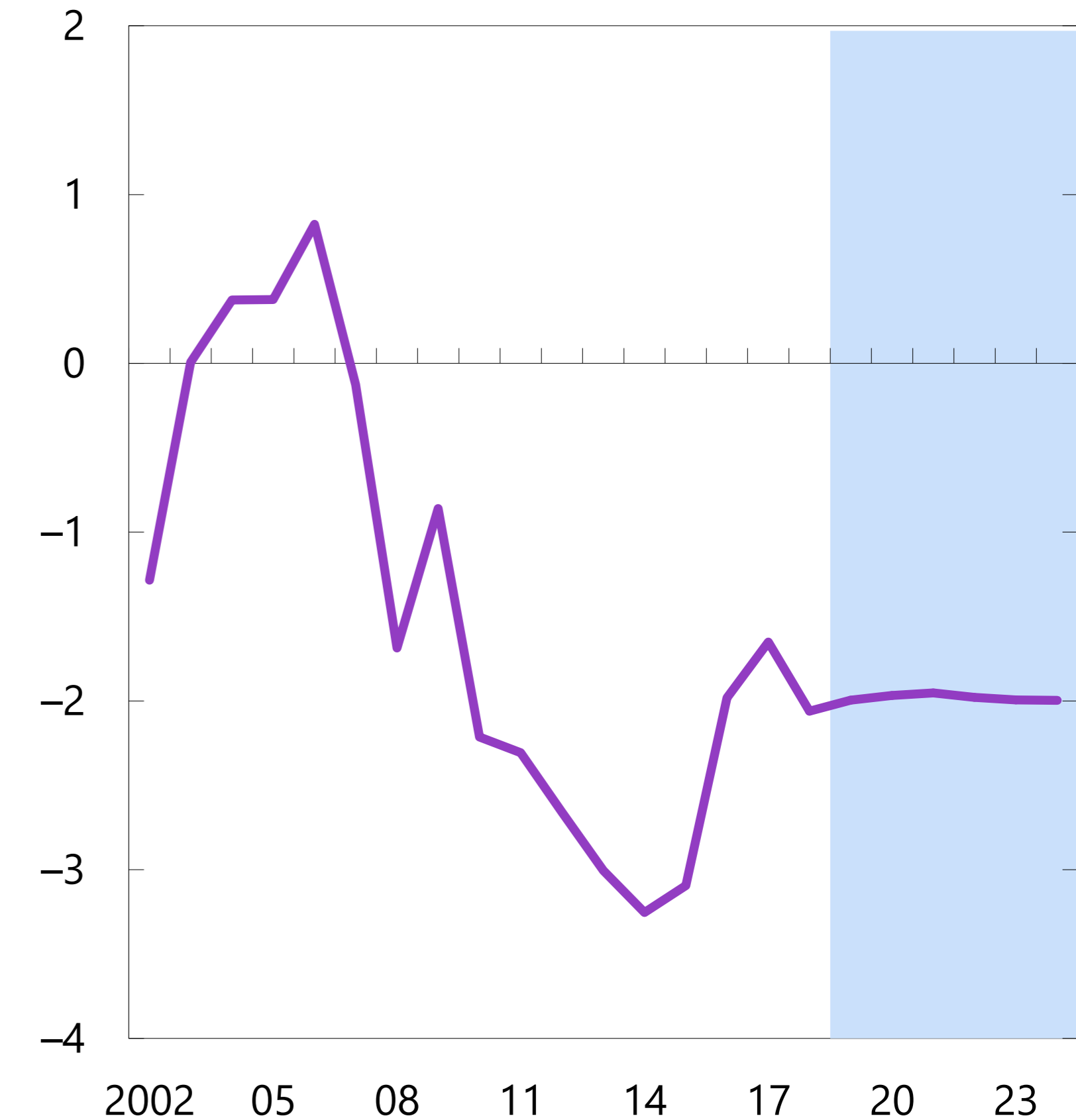
Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Includes countries with an inflation targeting framework. Target range (2.5–5.5) shown for Brazil is for 2020.

LAC: Output Gap
(Percent of potential GDP; excl. VEN)



Source: IMF, World Economic Outlook database.
Note: Purchasing-power-parity GDP-weighted averages.

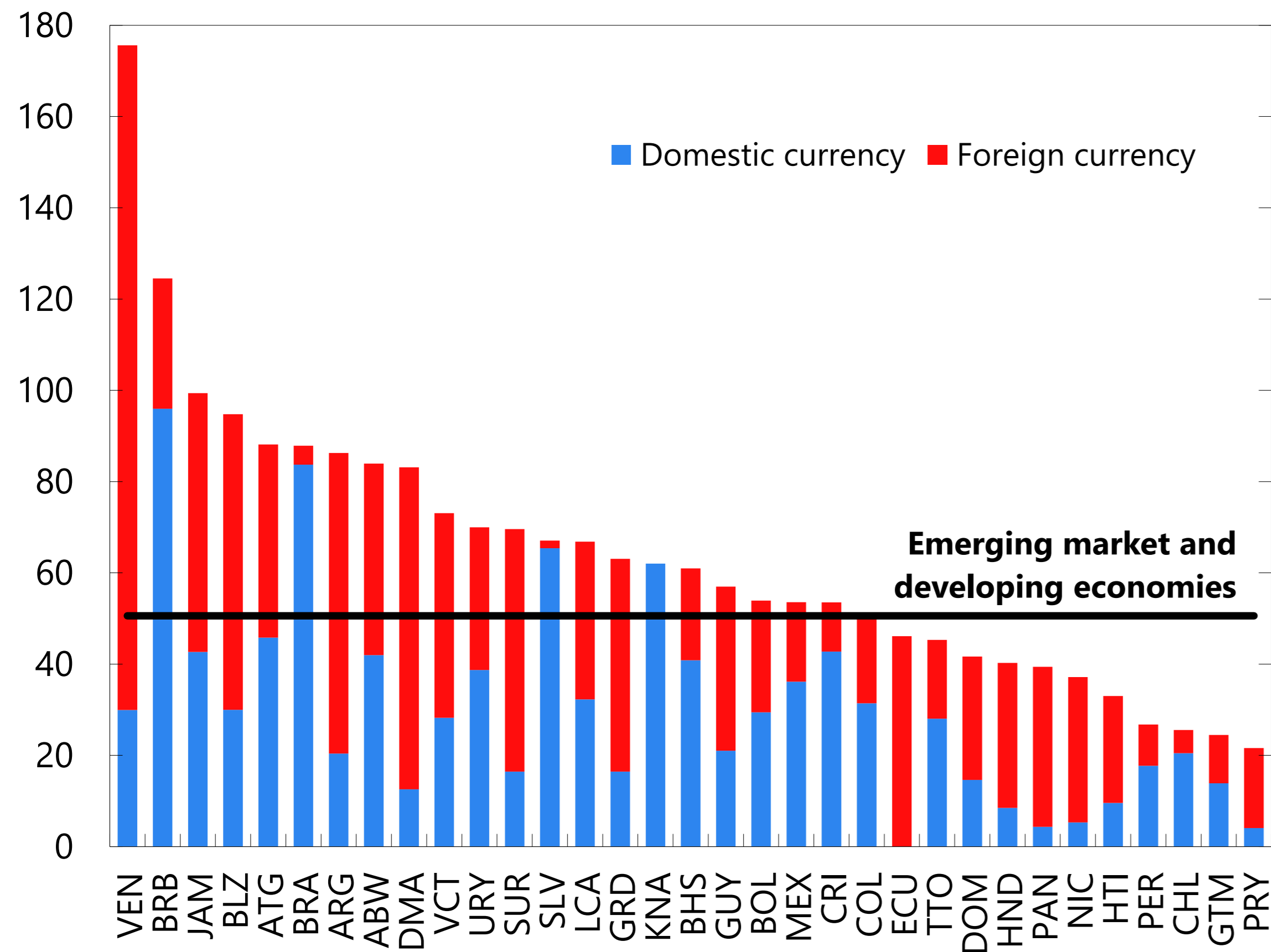
LAC: Current Account Balance
(Percent of GDP; excl. VEN)



Source: IMF, World Economic Outlook database.
Note: Current account balance is US dollar nominal GDP-weighted average.

But other vulnerabilities remain

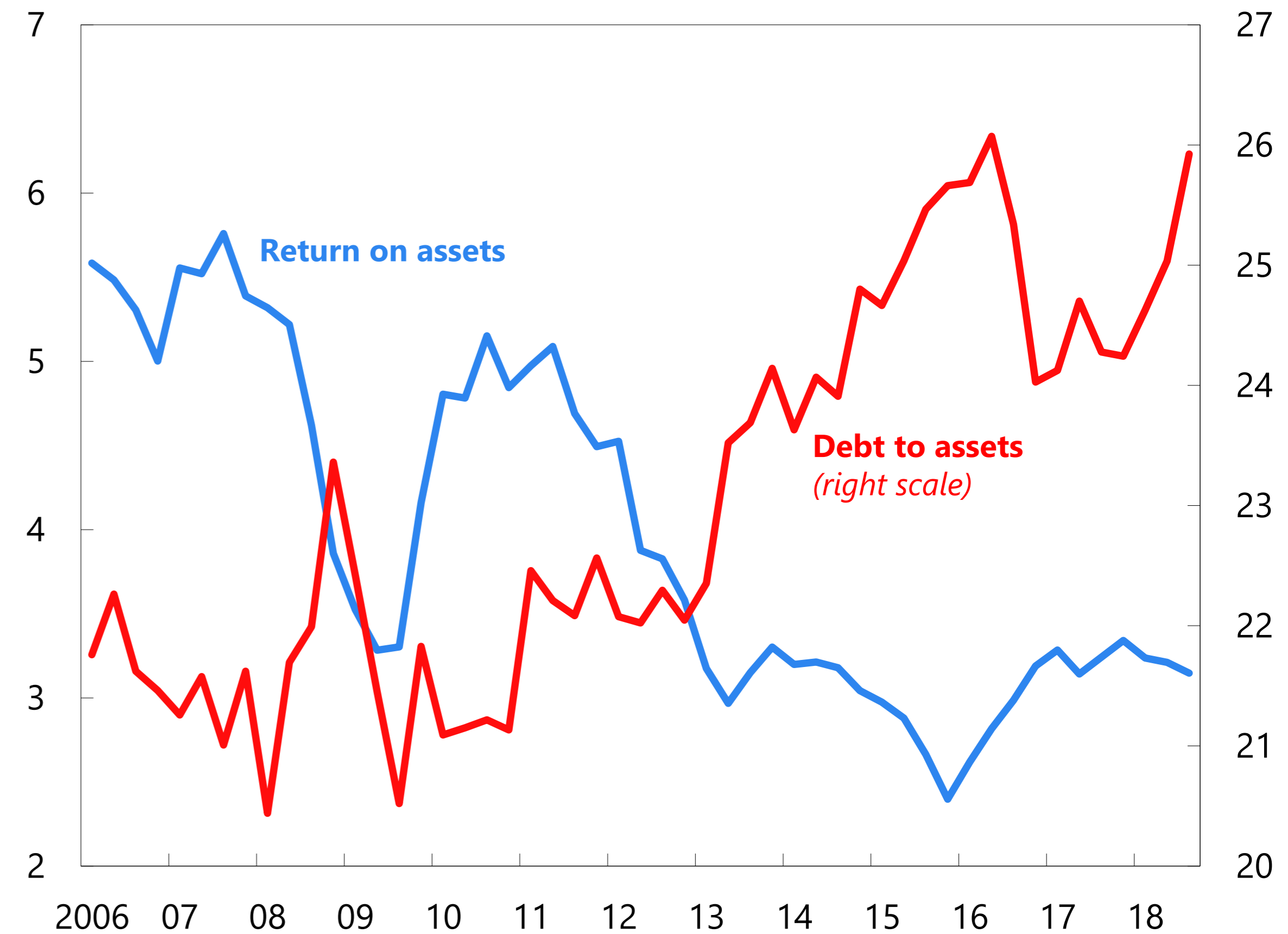
General Government Gross Debt, 2018
(Percent of fiscal year GDP)



Source: IMF, World Economic Outlook database.

Note: Ecuador's debt is in US dollars and is not affected by exchange rate risks. Uruguay's debt includes the debt of the central bank. Breakdown by denomination for St. Kitts and Nevis is not available; bar denotes total public debt.

Corporate Vulnerabilities
(Percent; median)

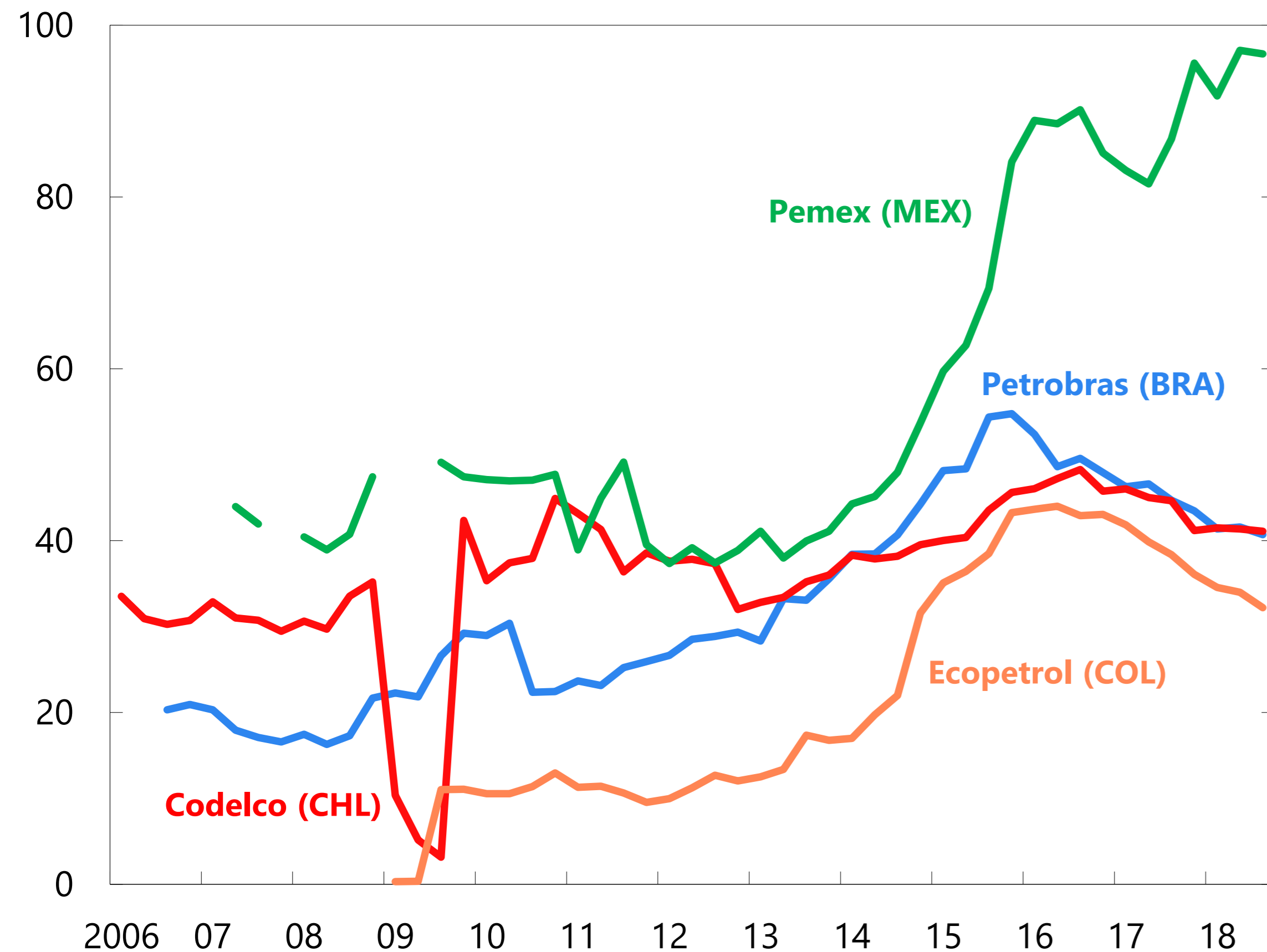


Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: Median of the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

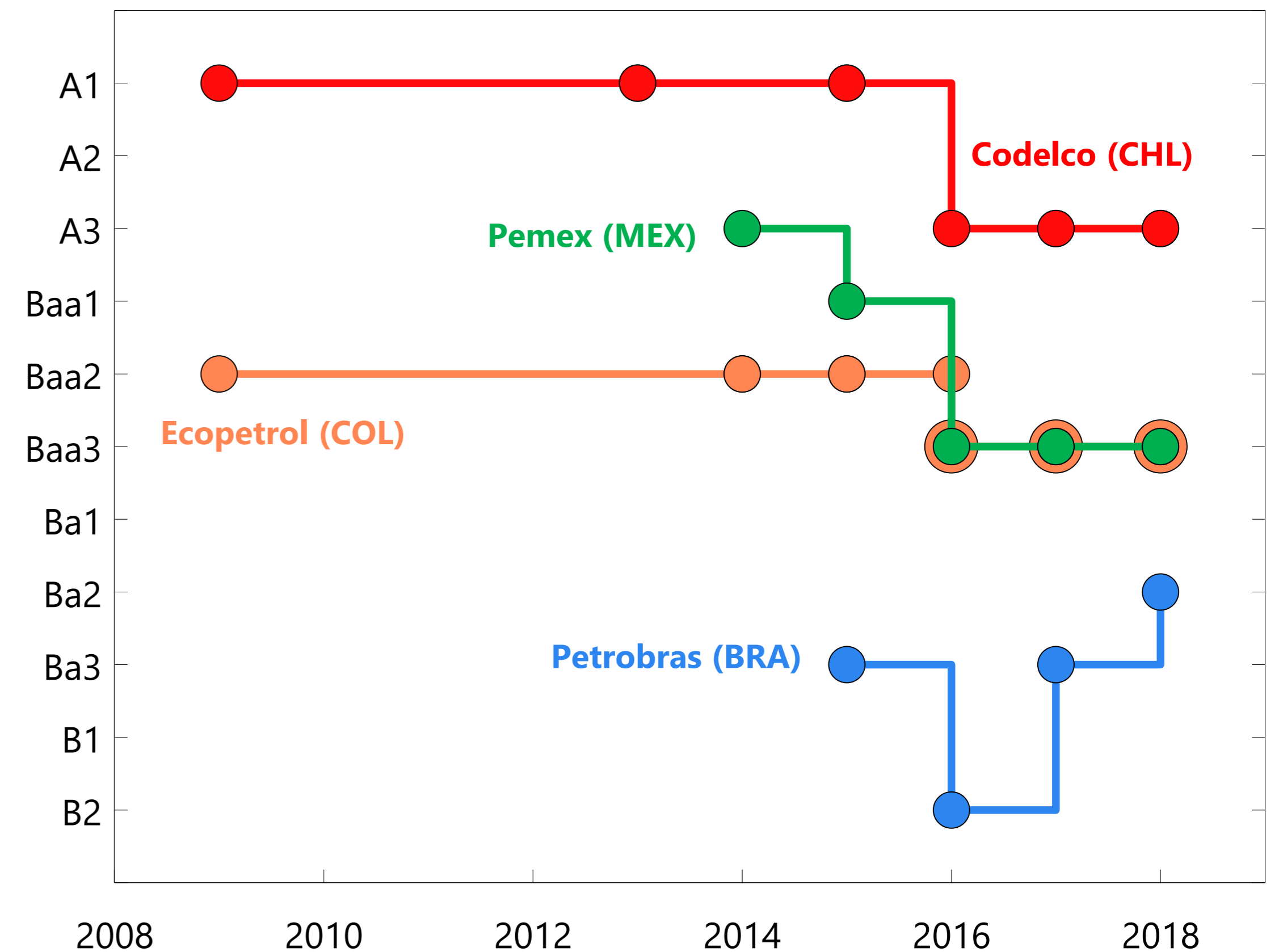
Too much leverage in SOEs...

State-Owned Enterprises: Leverage
(Debt to assets; %)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

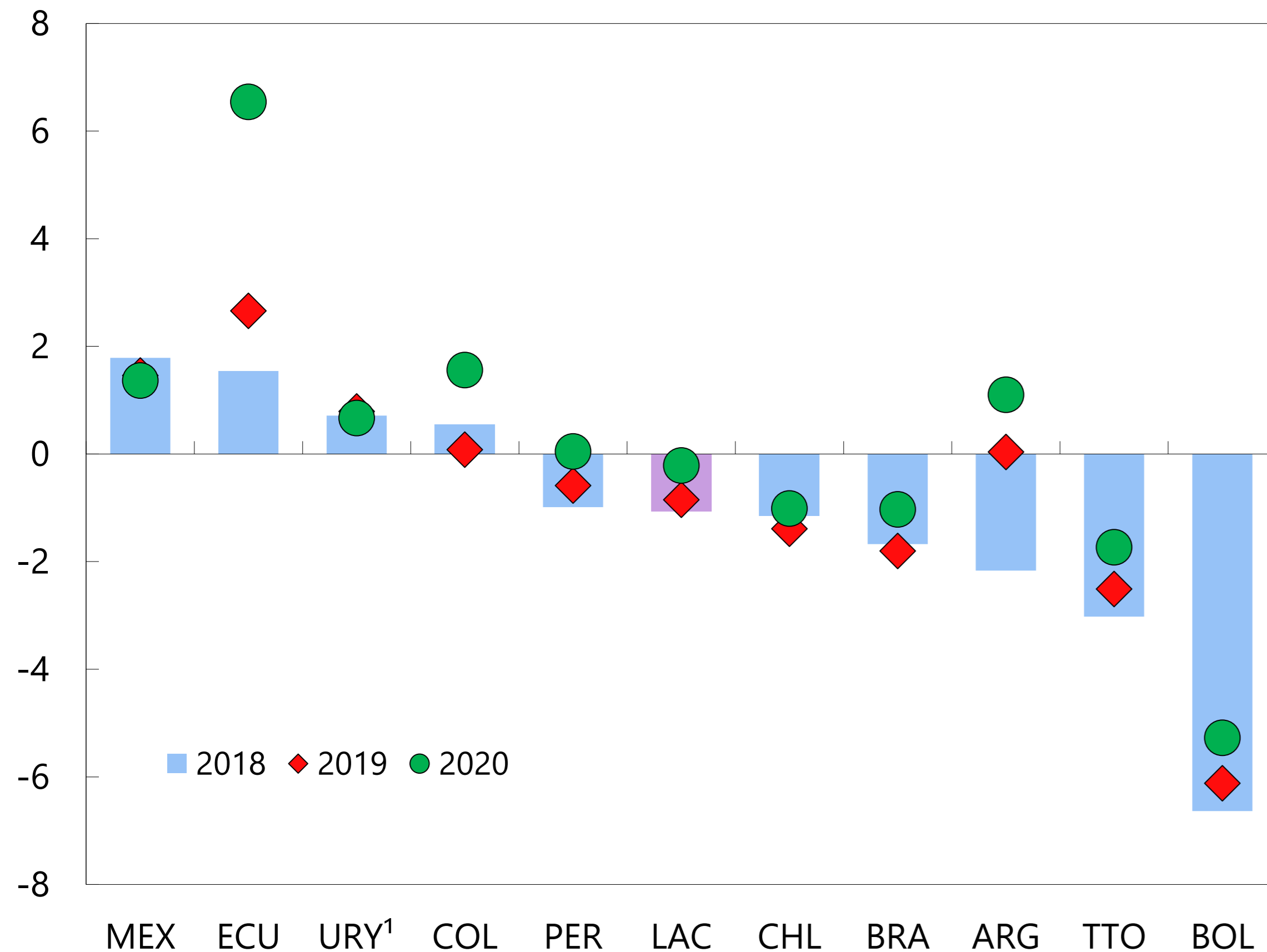
State-Owned Enterprises: Moody's Credit Ratings
(Ratings)



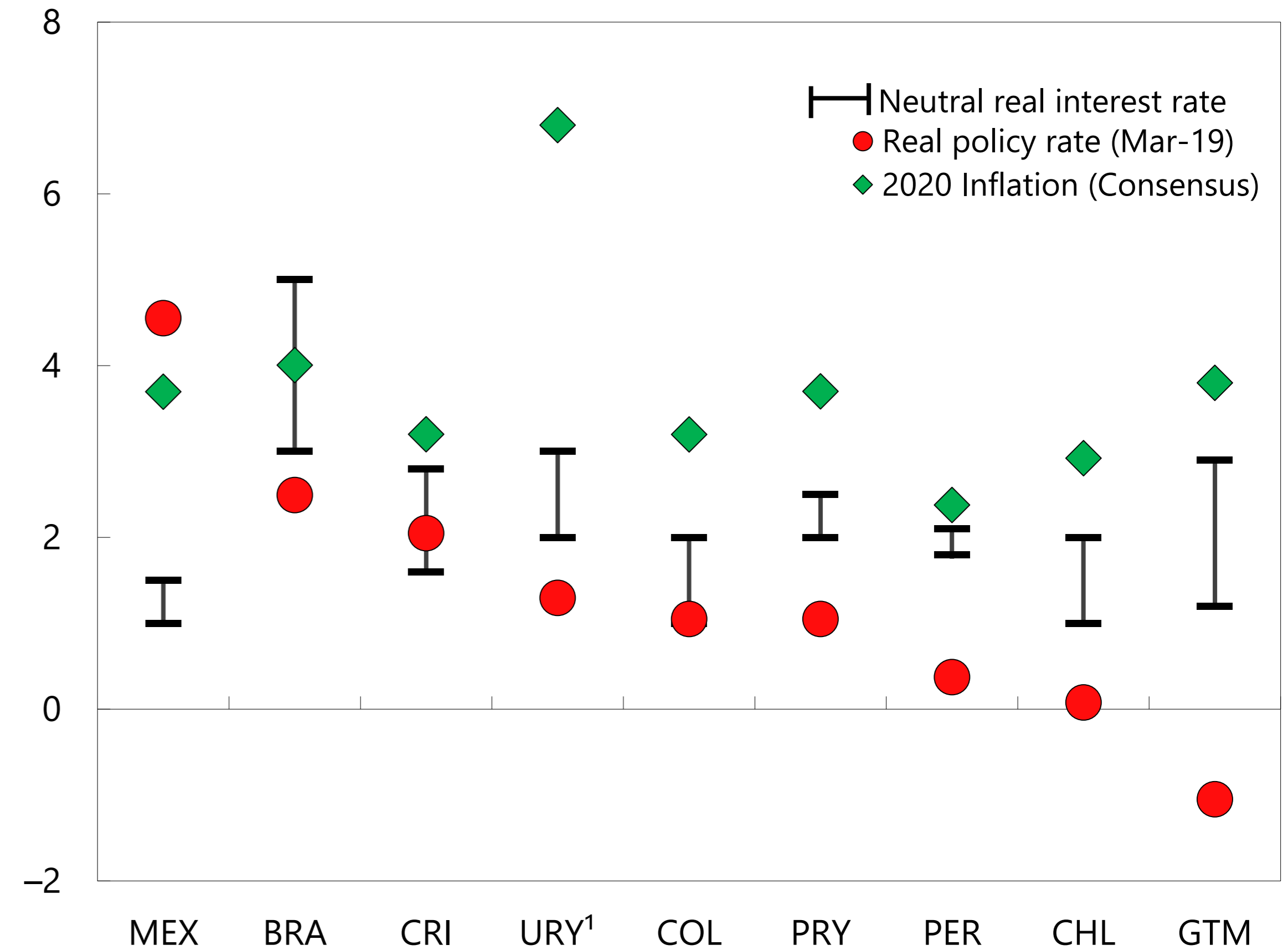
Source: Moody's Analytics, Inc.

... and fiscal consolidation is needed in several countries, while monetary policy can remain accommodative

Fiscal Primary Balance
(Percent of fiscal year GDP)



Monetary Policy and Inflation
(Percent)



Source: IMF, World Economic Outlook database.

Note: Regional aggregate is fiscal year US dollar nominal GDP-weighted average.

¹For Uruguay, primary balance includes pension-related transfers.

Sources: Consensus Economics; Haver Analytics; national authorities; and IMF staff calculations.

Note: Real (ex ante) policy rates calculated as the difference between the policy rate and the one-year-ahead inflation expectations. The high-low lines represent the range of IMF staff's neutral rate estimates.

¹Uruguay does not have a policy rate. Interest rate shown is based on the 1-month nominal yield (letras).

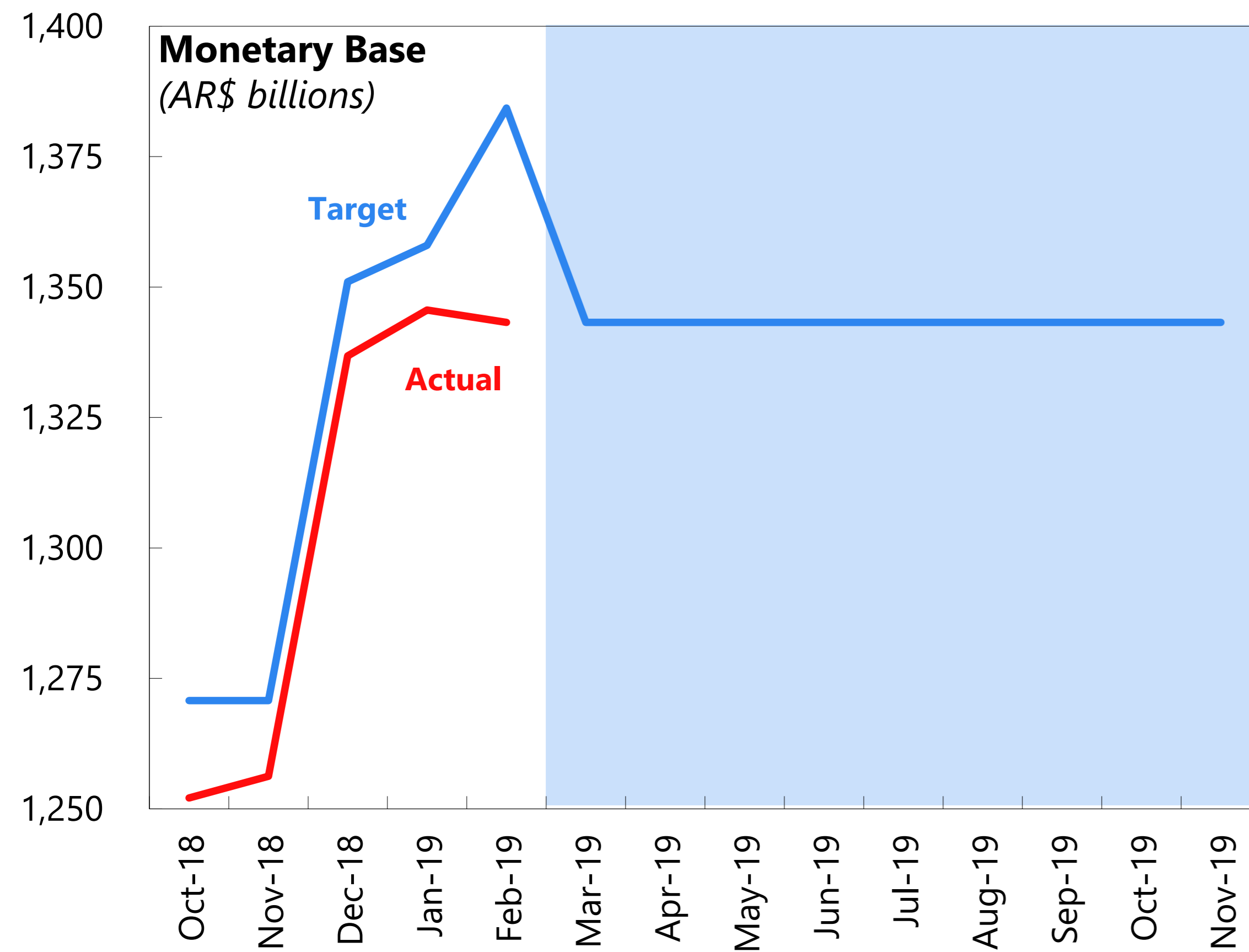
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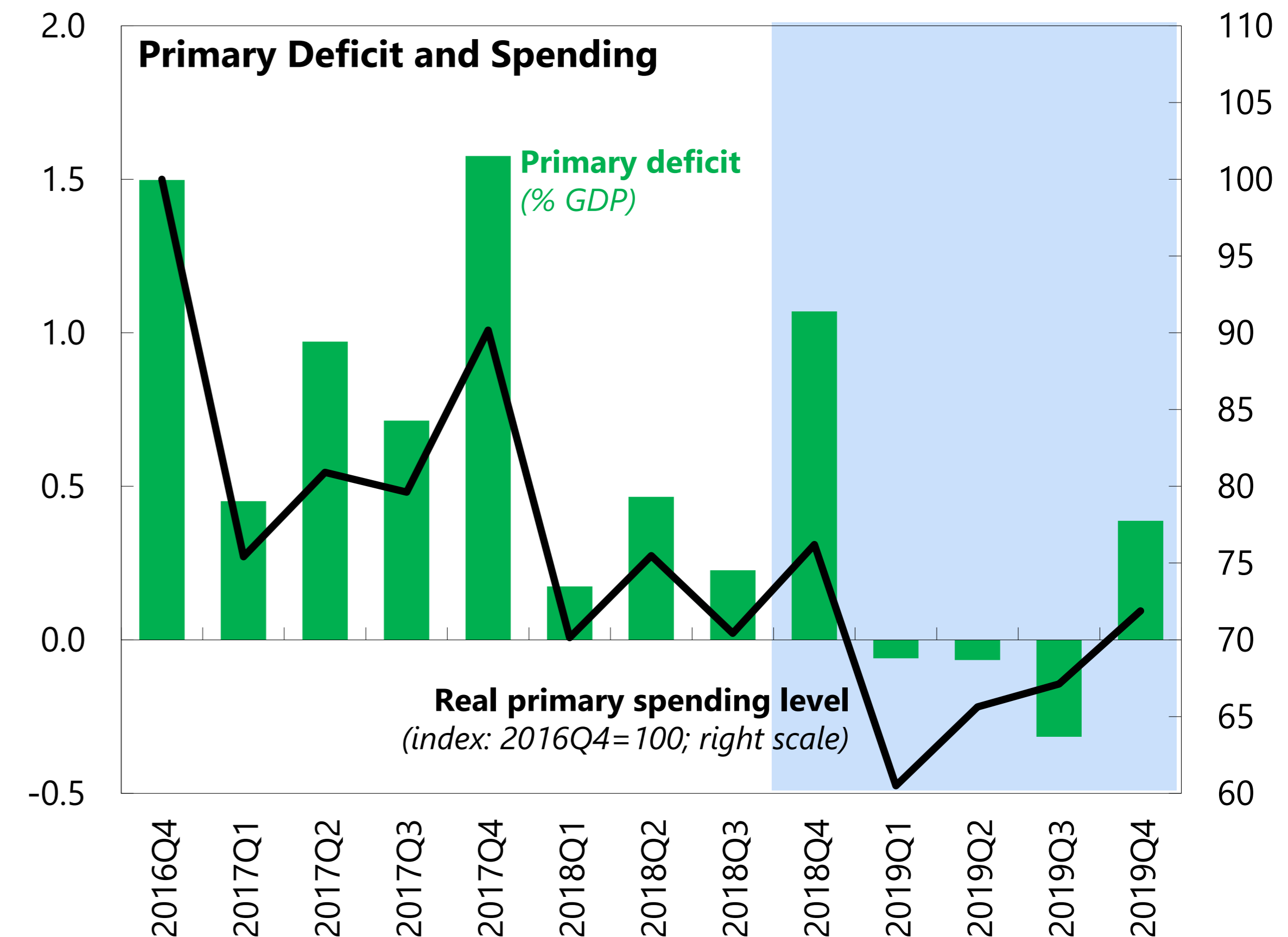


Argentina: Implementation of the stabilization plan is yielding results

Monetary policy should remain adequately tight to keep inflation in check...



... and the fiscal consolidation should continue



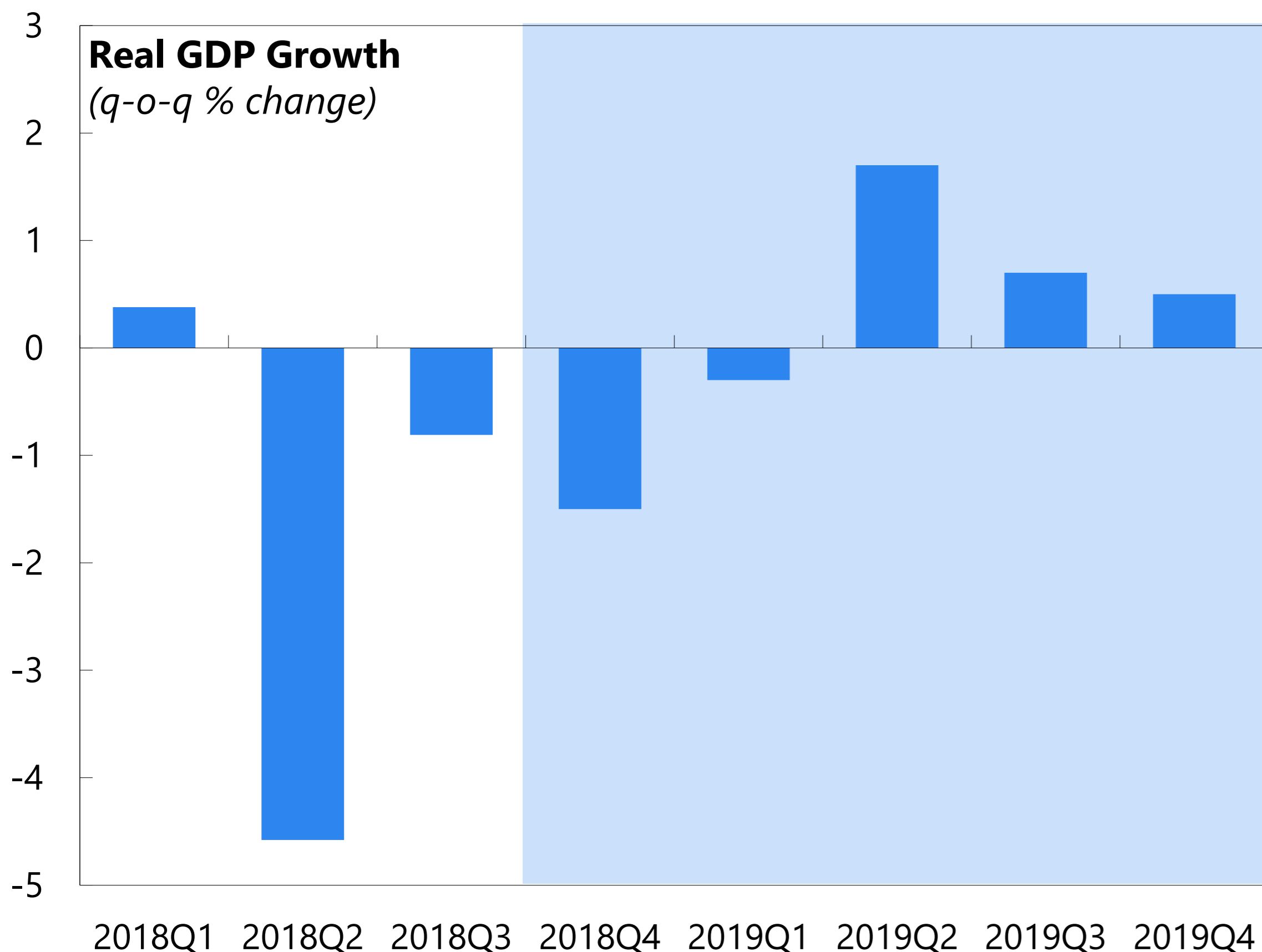
Source: BCRA.

Sources: Ministerio de Hacienda; and IMF staff calculations.



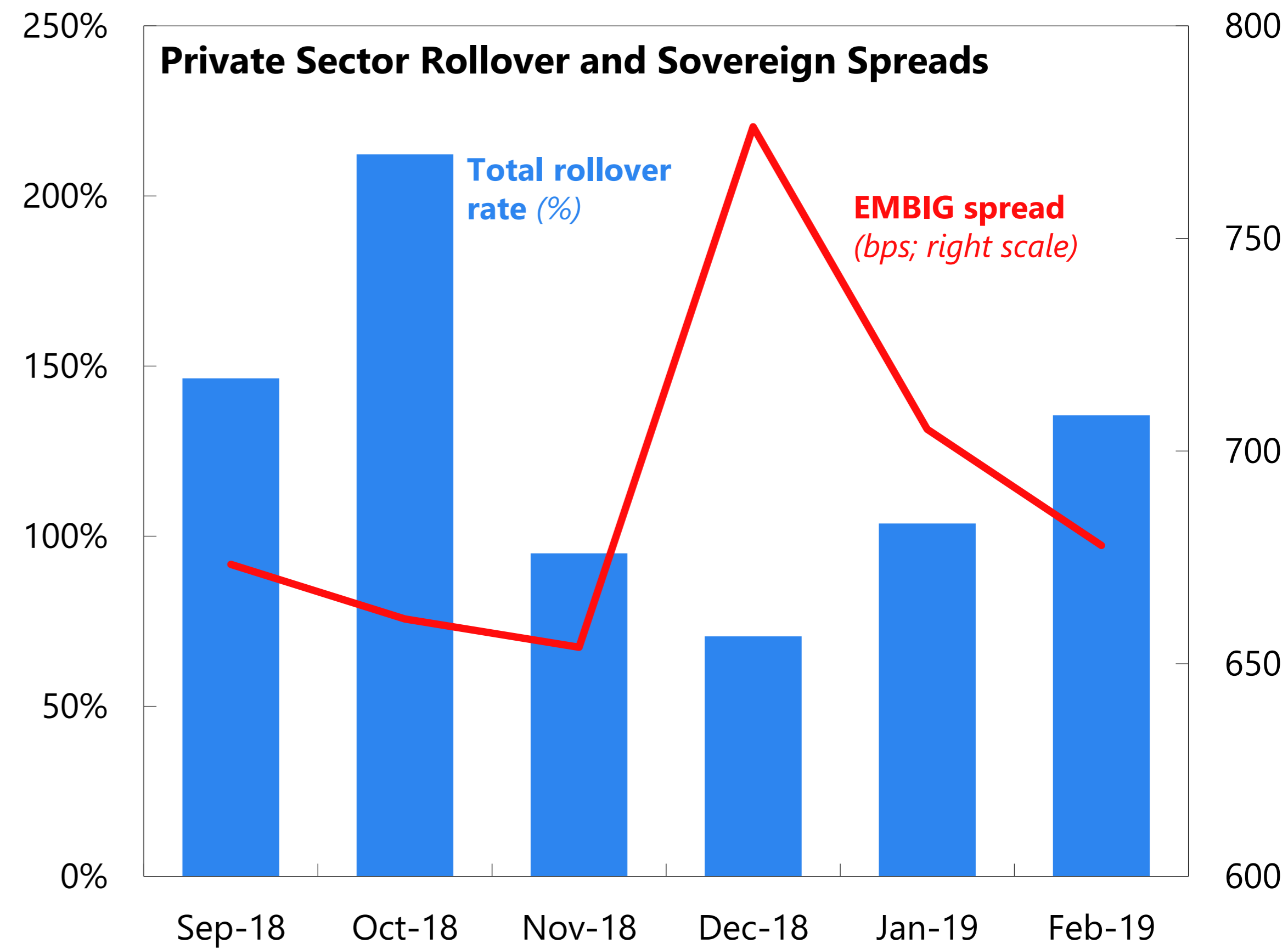
Argentina: Real economy performed better than expected so far and debt rollover rates have been high

Decline in 2018Q4 should be smaller and growth should turn positive in 2019:Q2



Sources: INDEC; and IMF staff calculations

Private sector rollover rates have been comfortably above program targets even amid some volatility in spreads

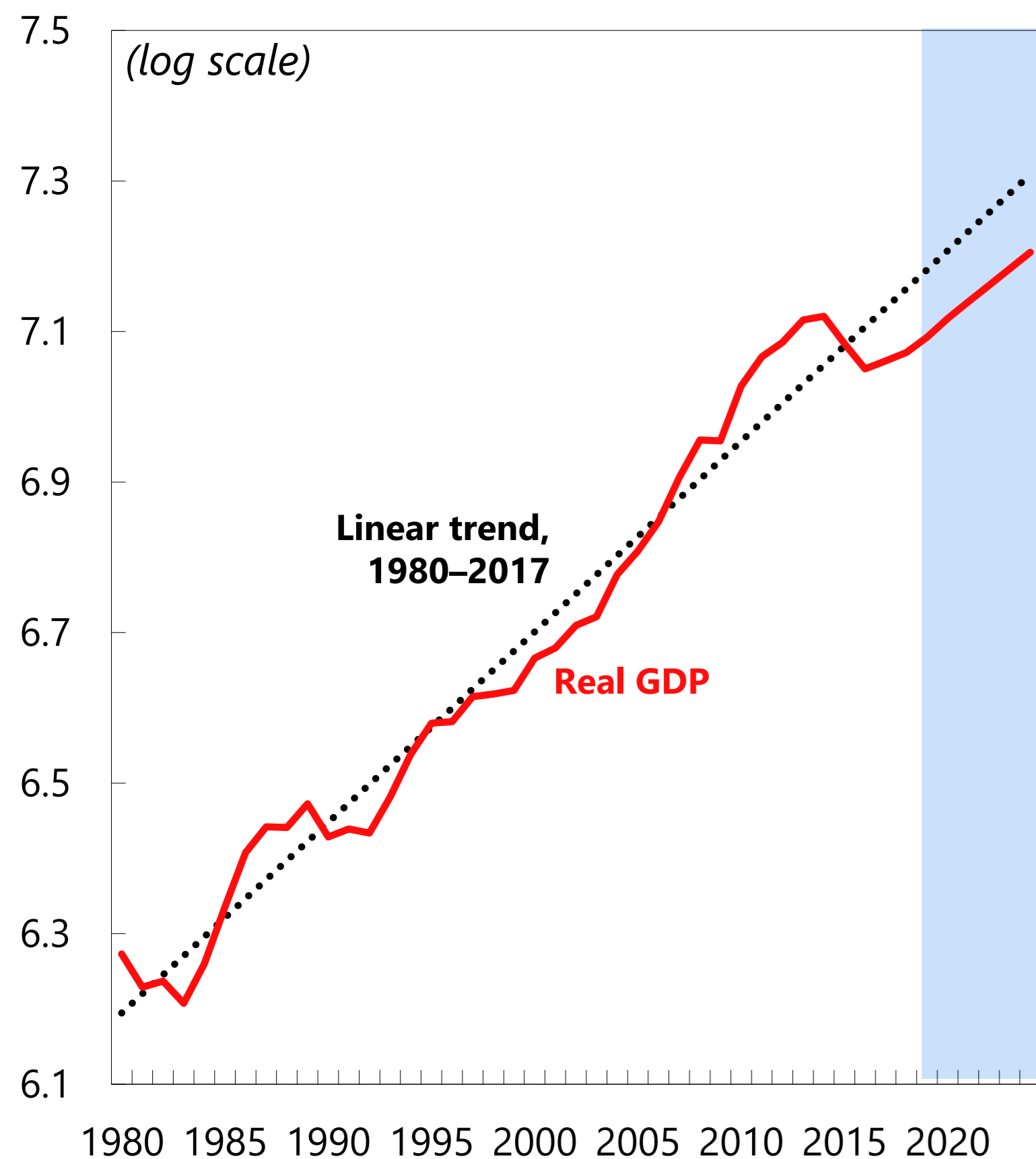


Sources: Bloomberg Finance L.P.; and IMF staff calculations.



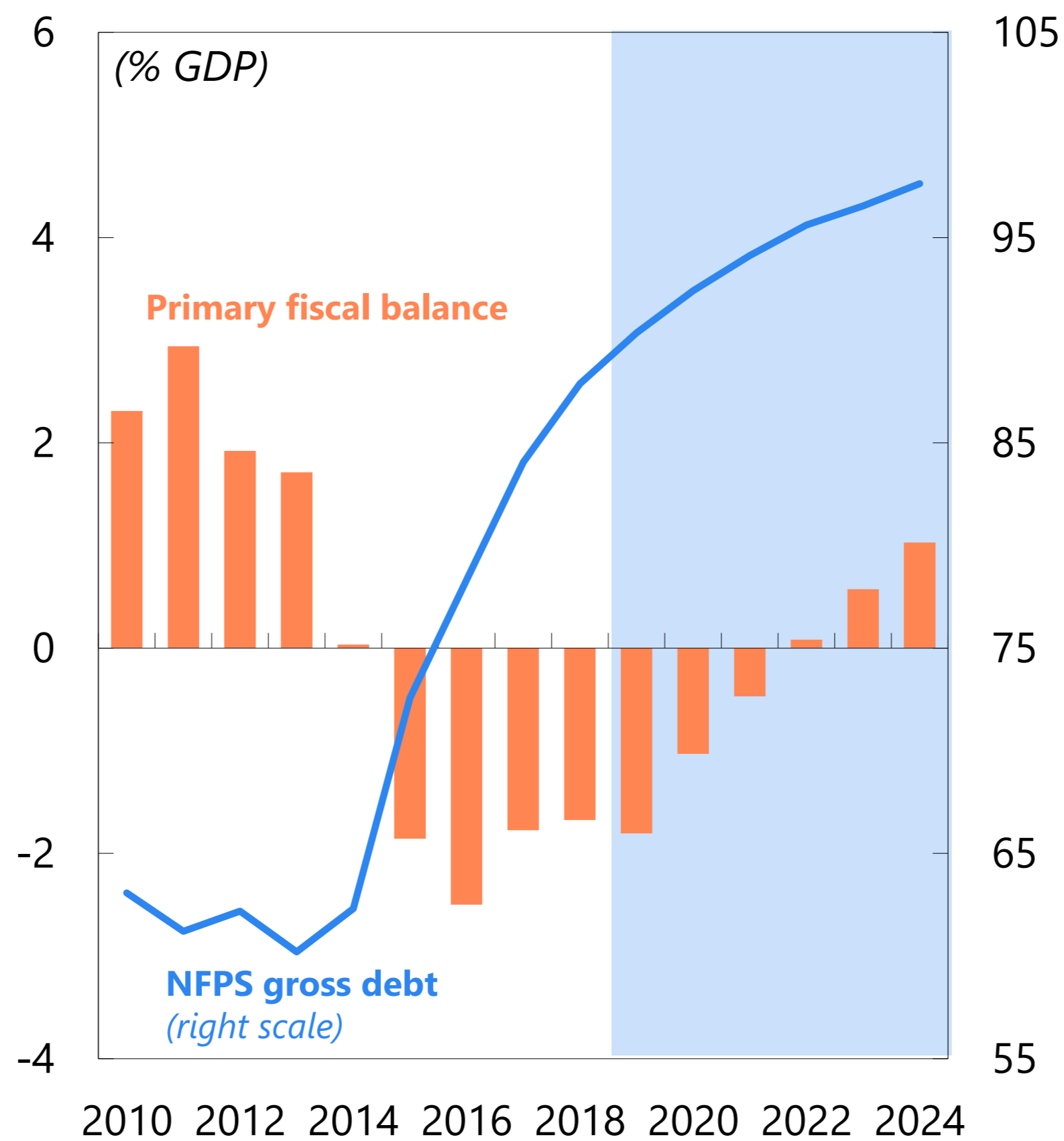
Brazil: Moderate economic growth, amid severe fiscal challenges

GDP is expected to remain below its historical trend



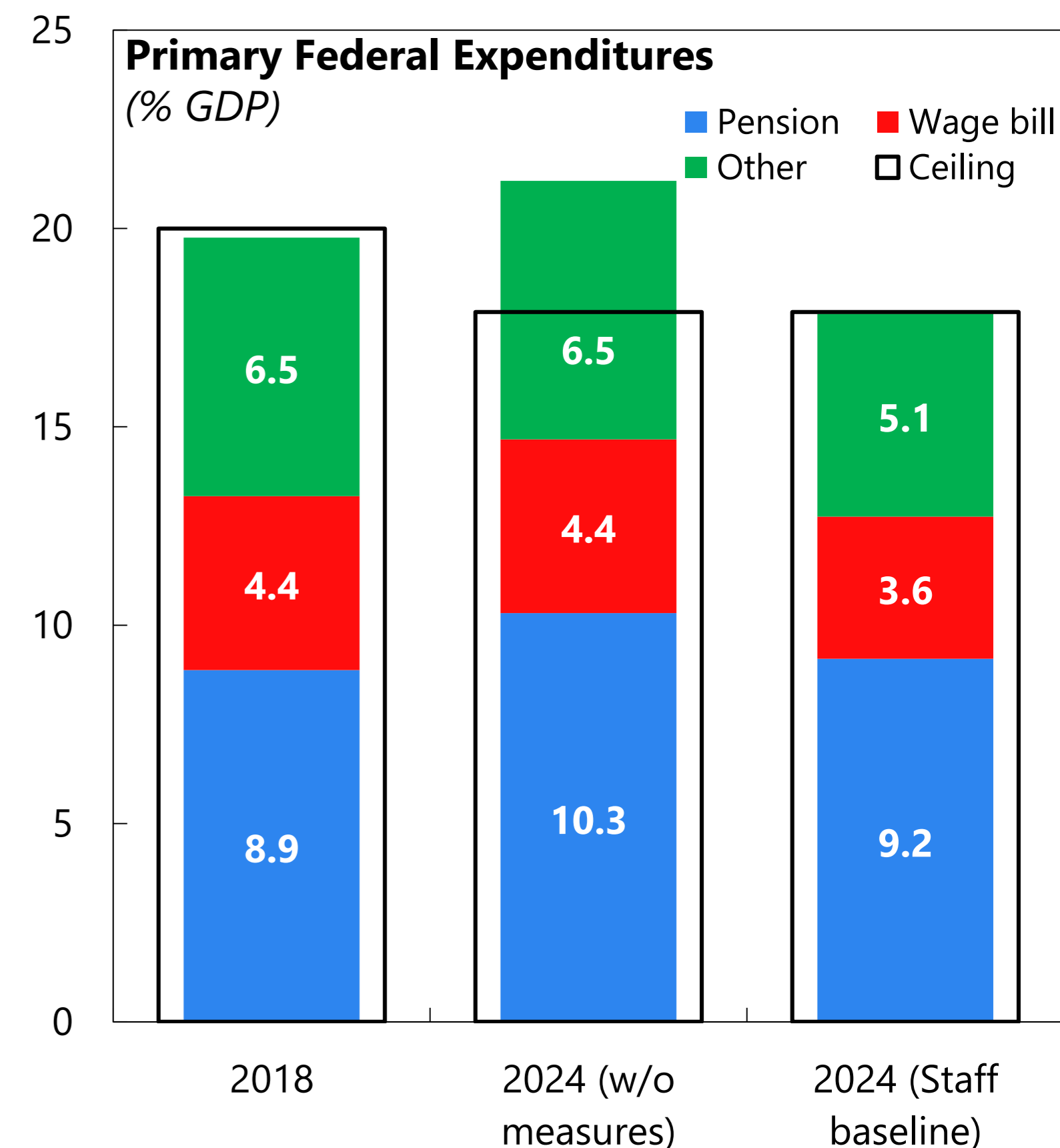
Source: IMF, World Economic Outlook database.

Public debt is high and rising



Source: IMF, World Economic Outlook database.

Broad-based measures are needed to comply with the expenditure ceiling

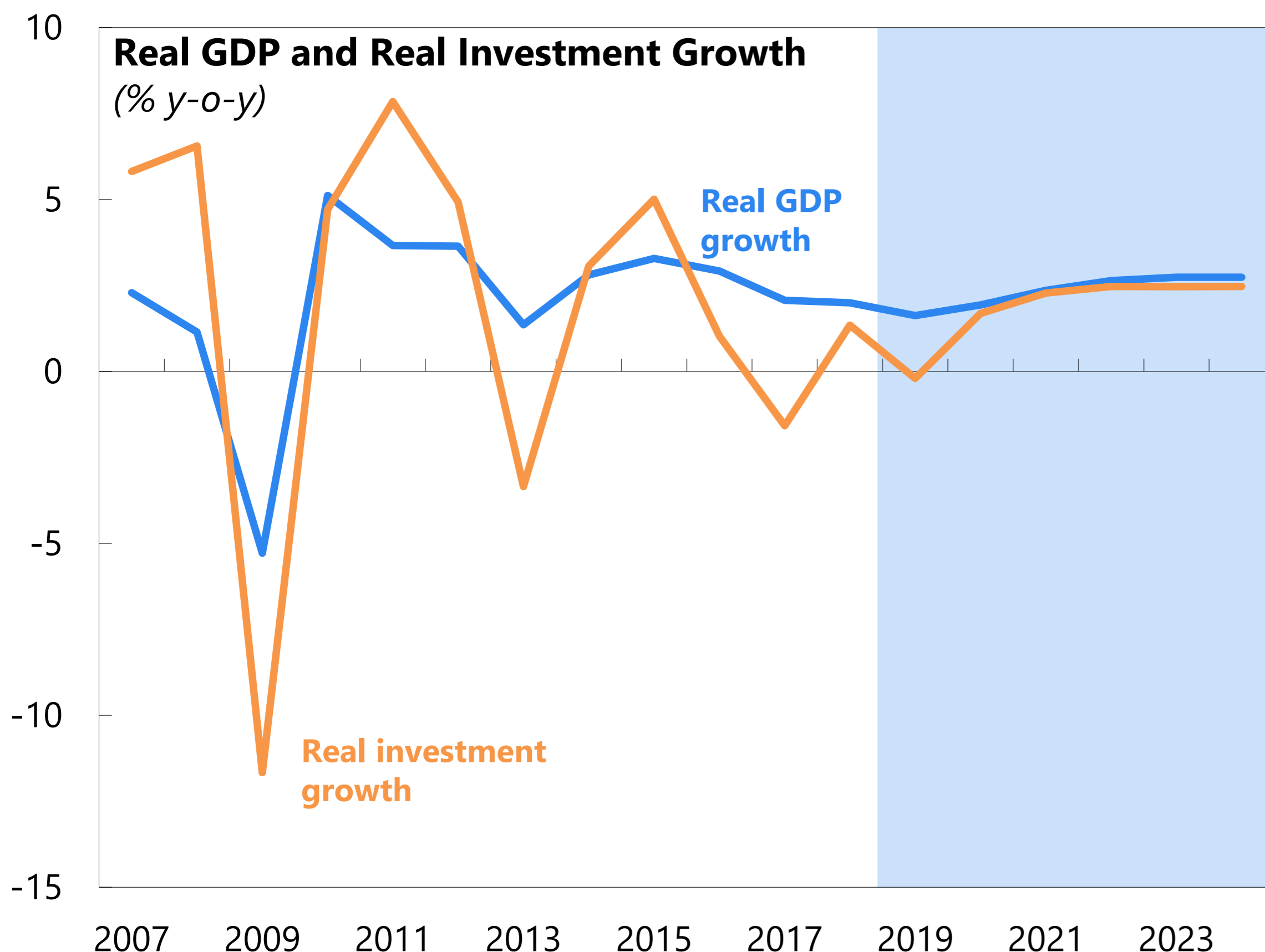


Source: IMF staff calculations.



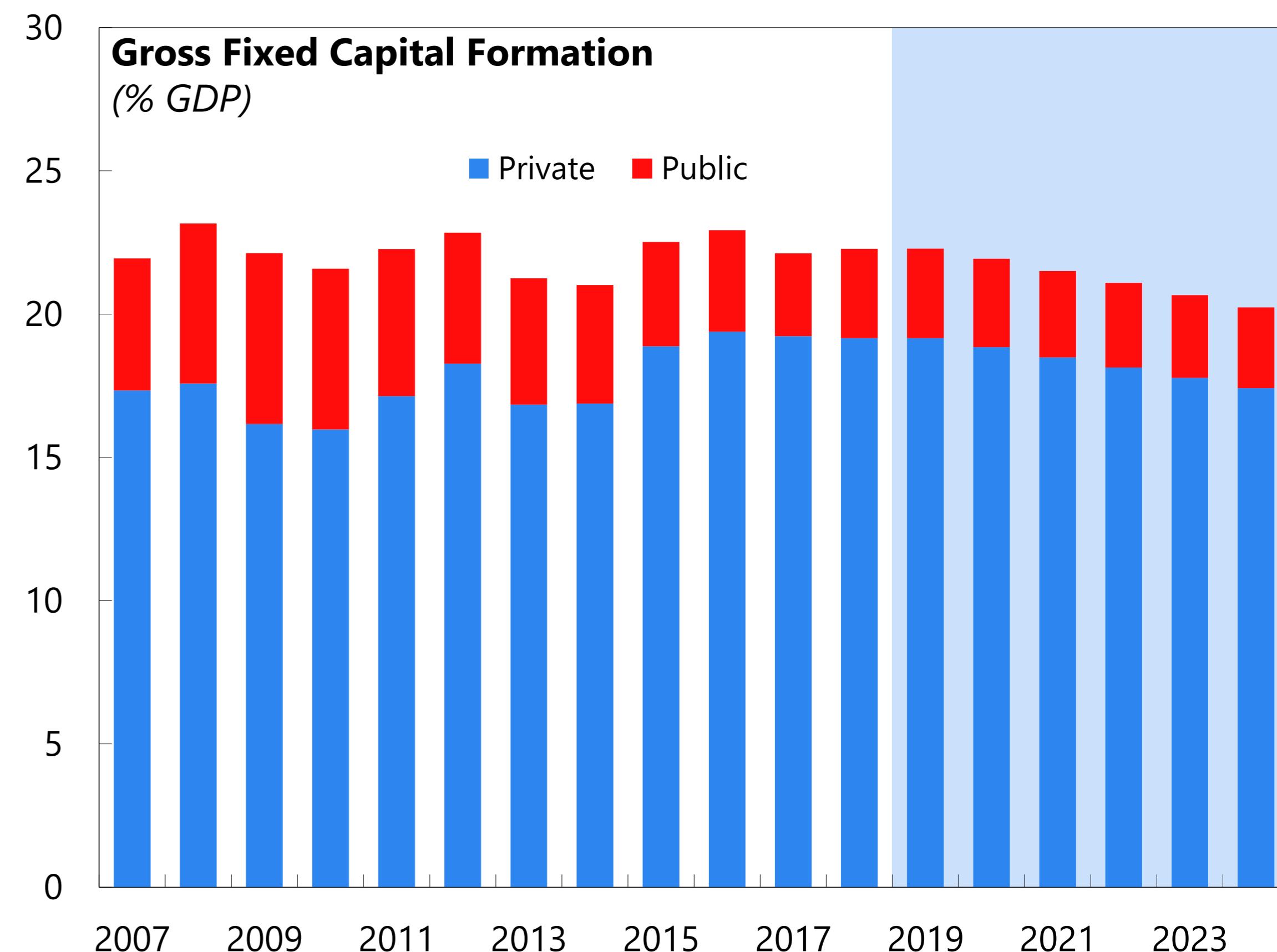
Mexico: Modest growth outlook, partly due to weak investment prospects

Growth is projected to weaken in the short term while medium term projections imply little convergence with advanced economies



Source: IMF, World Economic Outlook database.

Investment growth is projected to remain subdued, due partly to policy uncertainty and backtracking in some reforms

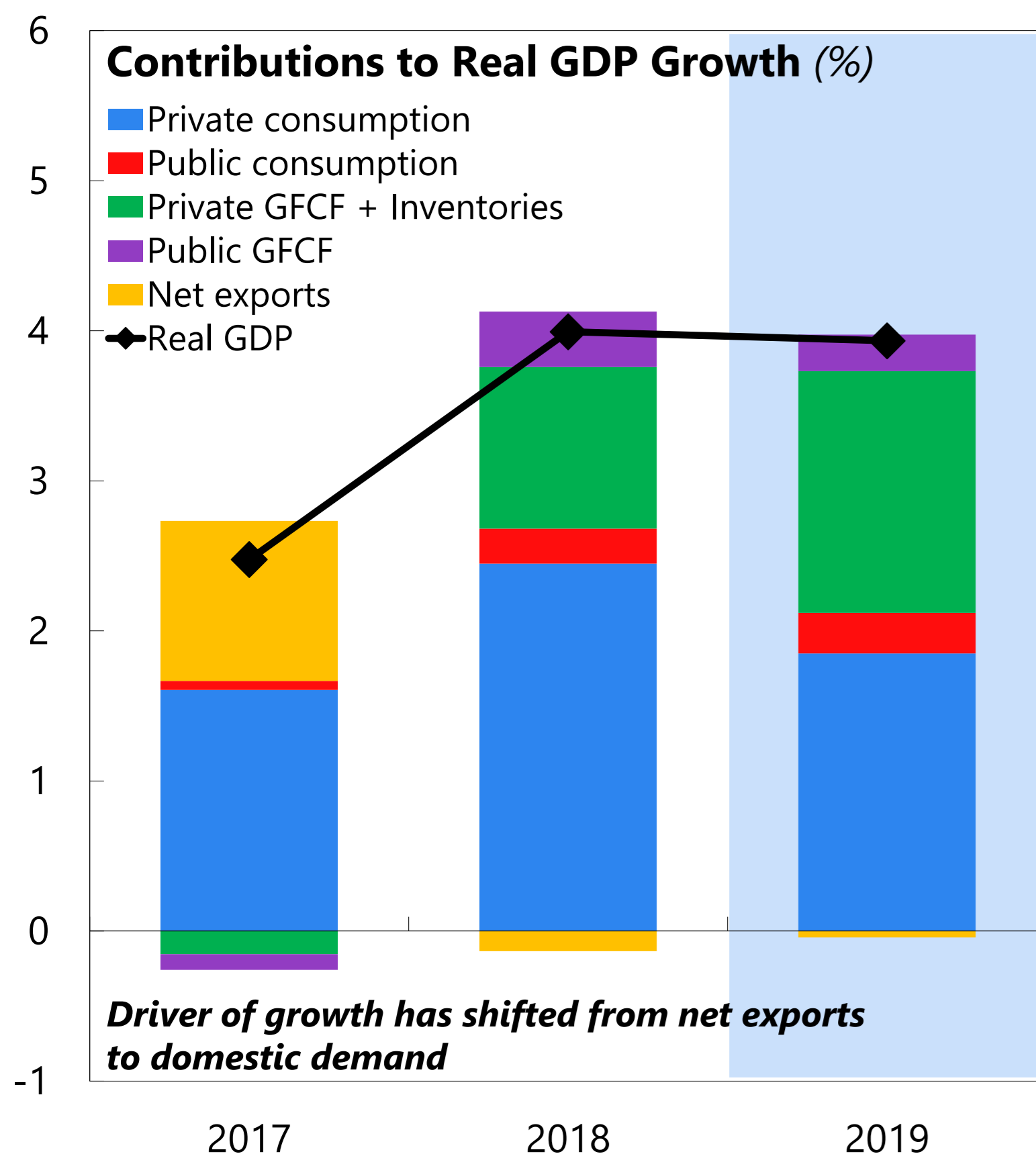


Source: IMF, World Economic Outlook database.



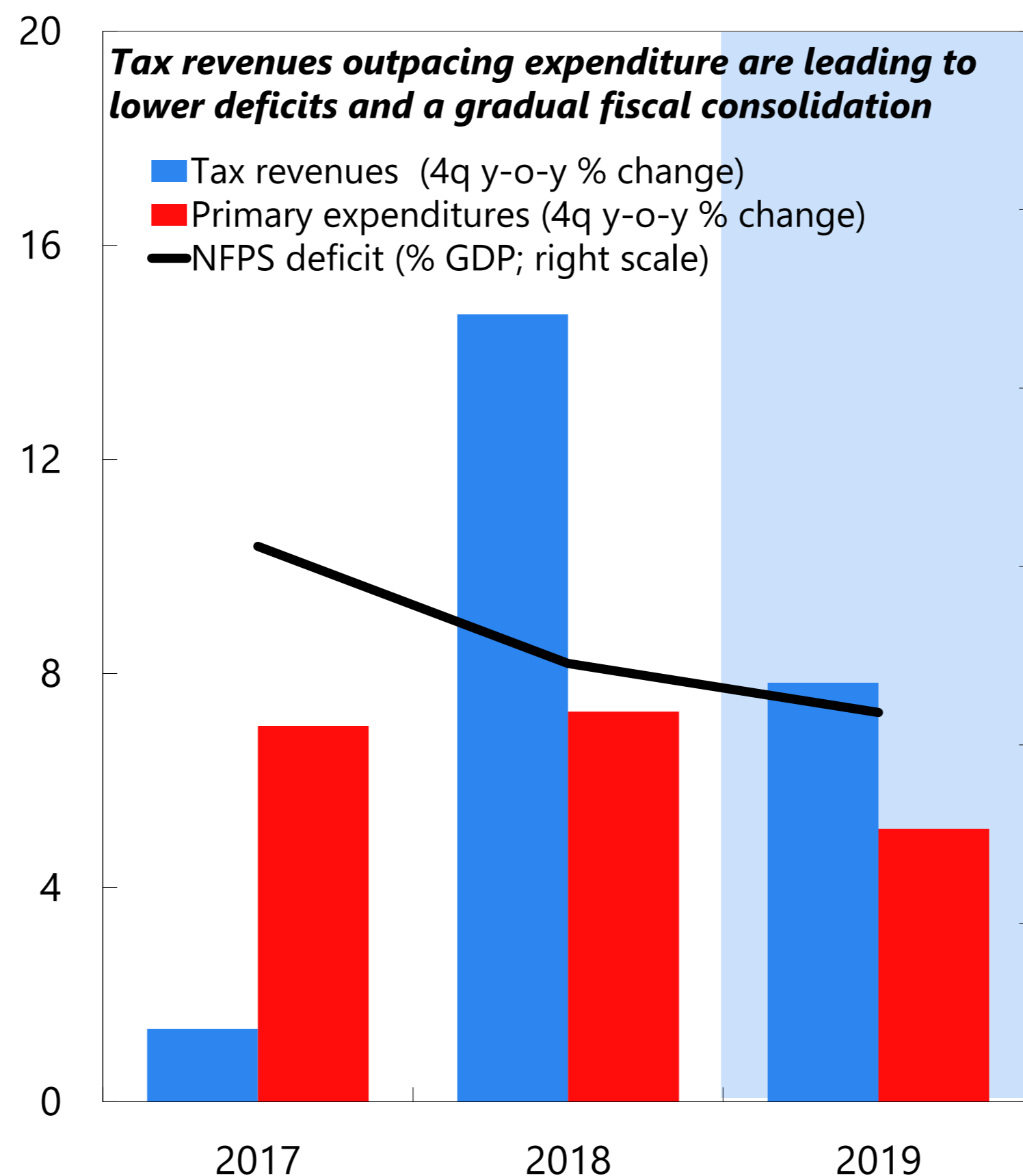
Peru: Robust demand-driven growth opening room for gradual withdrawal of policy stimulus

Growth recovered in 2018 and is expected to remain near four percent in 2019 driven by domestic demand...



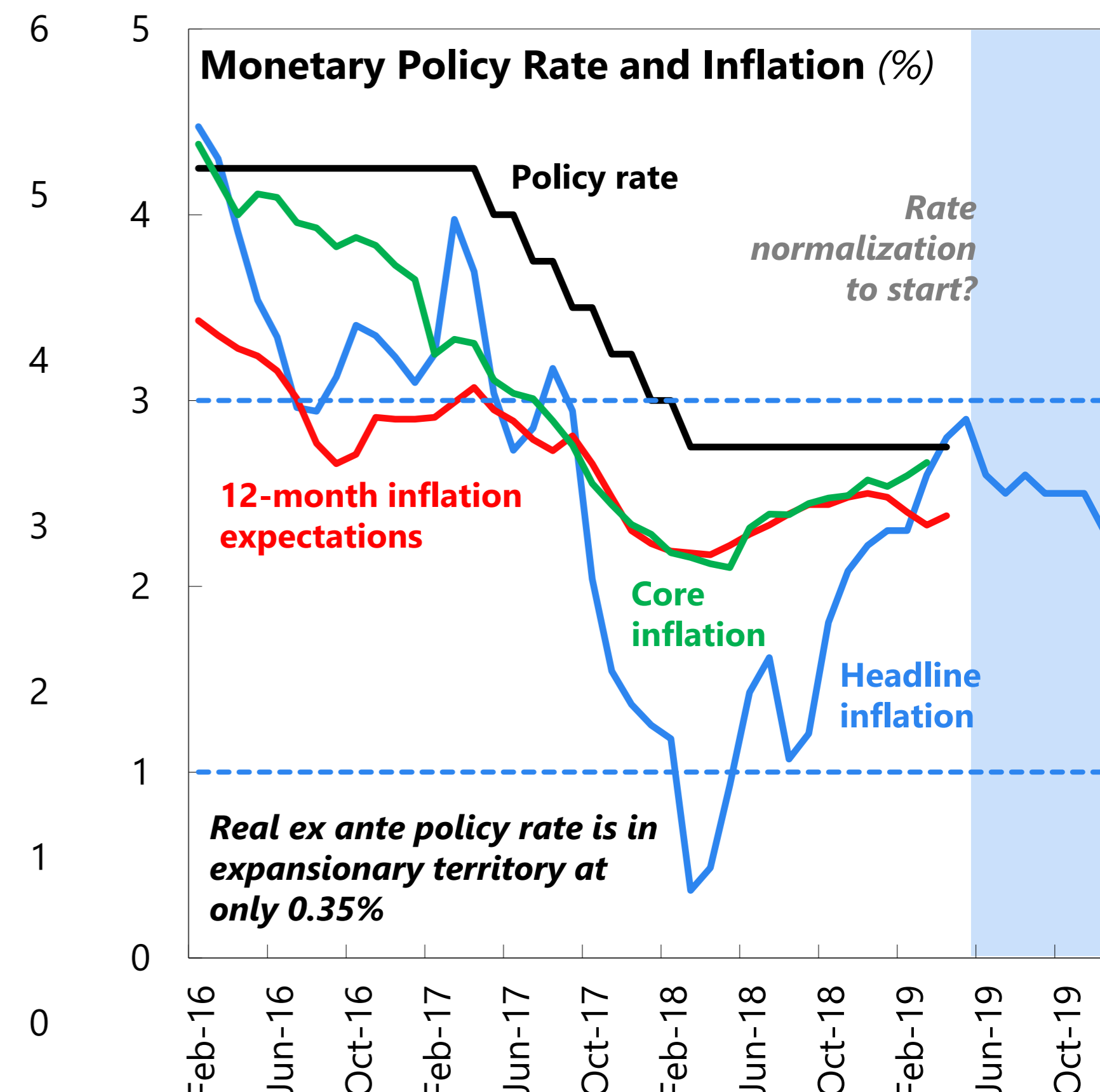
Sources: Banco Central de Reserva del Perú; and IMF staff calculations.

... tax revenues also recovered in 2018 on the back of the stronger growth and higher commodity prices.



Sources: Banco Central de Reserva del Perú; and IMF staff calculations.

Policy rate has been on hold, but normalization cycle may start in 2019 given low real policy rate and anchored inflation expectations.



Sources: Banco Central de Reserva del Perú; and Haver Analytics.



Venezuela: Deteriorating social conditions have created a humanitarian crisis

Humanitarian Crisis

- Declining purchasing power.
- Networks breaking down, including electricity; water; cooking gas; transportation; health care provision; food at subsidized prices; security.

Some facts:

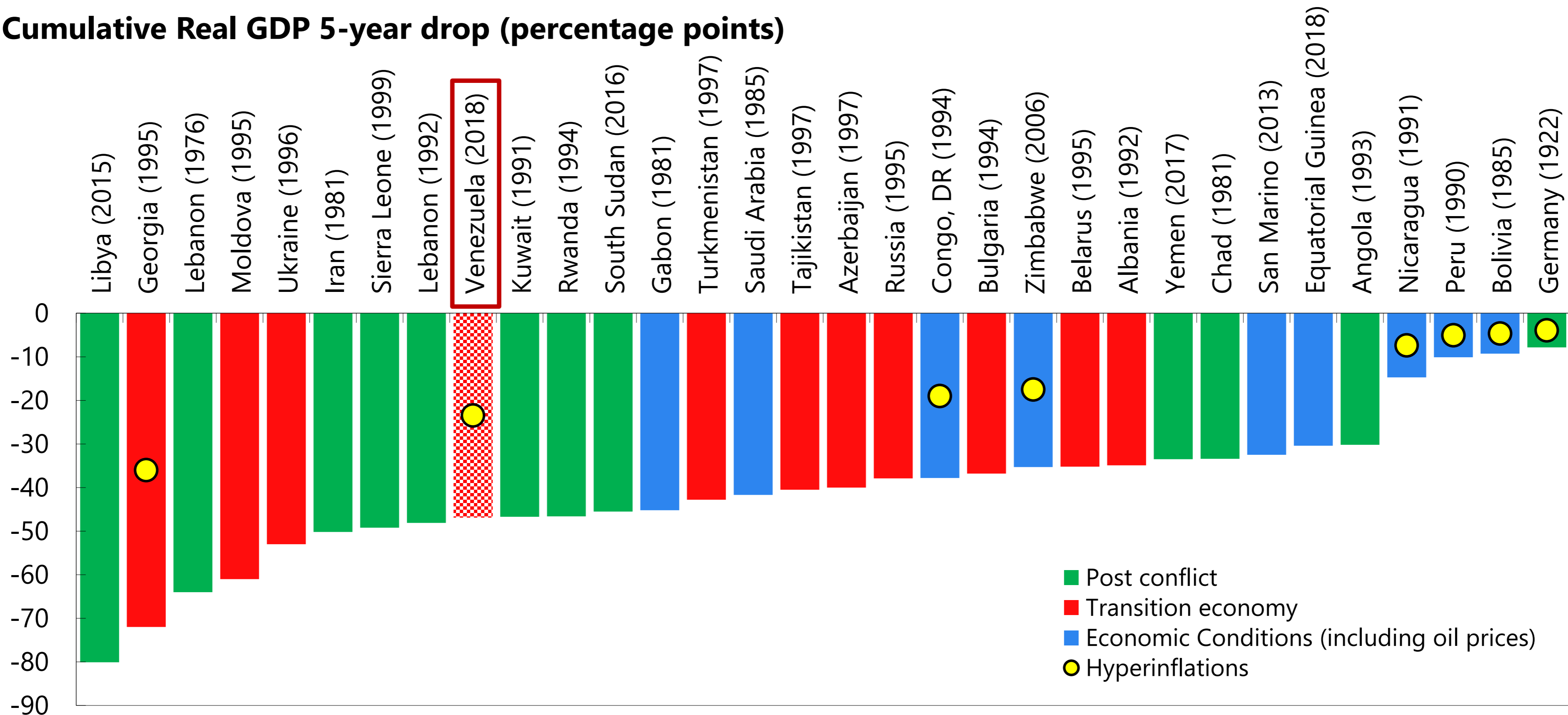
- Poverty rate exceeded 90 percent in 2018, and extreme poverty 56 percent.
- More than 30 thousand health workers have left the country.
- Maternal mortality rate at 112 per 100,000 live birth in 2017 (twice that found in 2000).
- More than 80 percent of households experience power shortages and more than 70 percent water shortages.
- Most violent country in Latin America, with murder rate of 81.4 deaths per 100,000 people in 2018 (Honduras and El Salvador the murder rate is about 40 and 60 per 100,000 people, respectively).



Venezuela: Economic activity has collapsed

Venezuelan decline in GDP is one of the most severe in recent history

Cumulative Real GDP 5-year drop (percentage points)



Sources: IMF, World Economic Outlook database; Madison dataset; and IMF estimates.

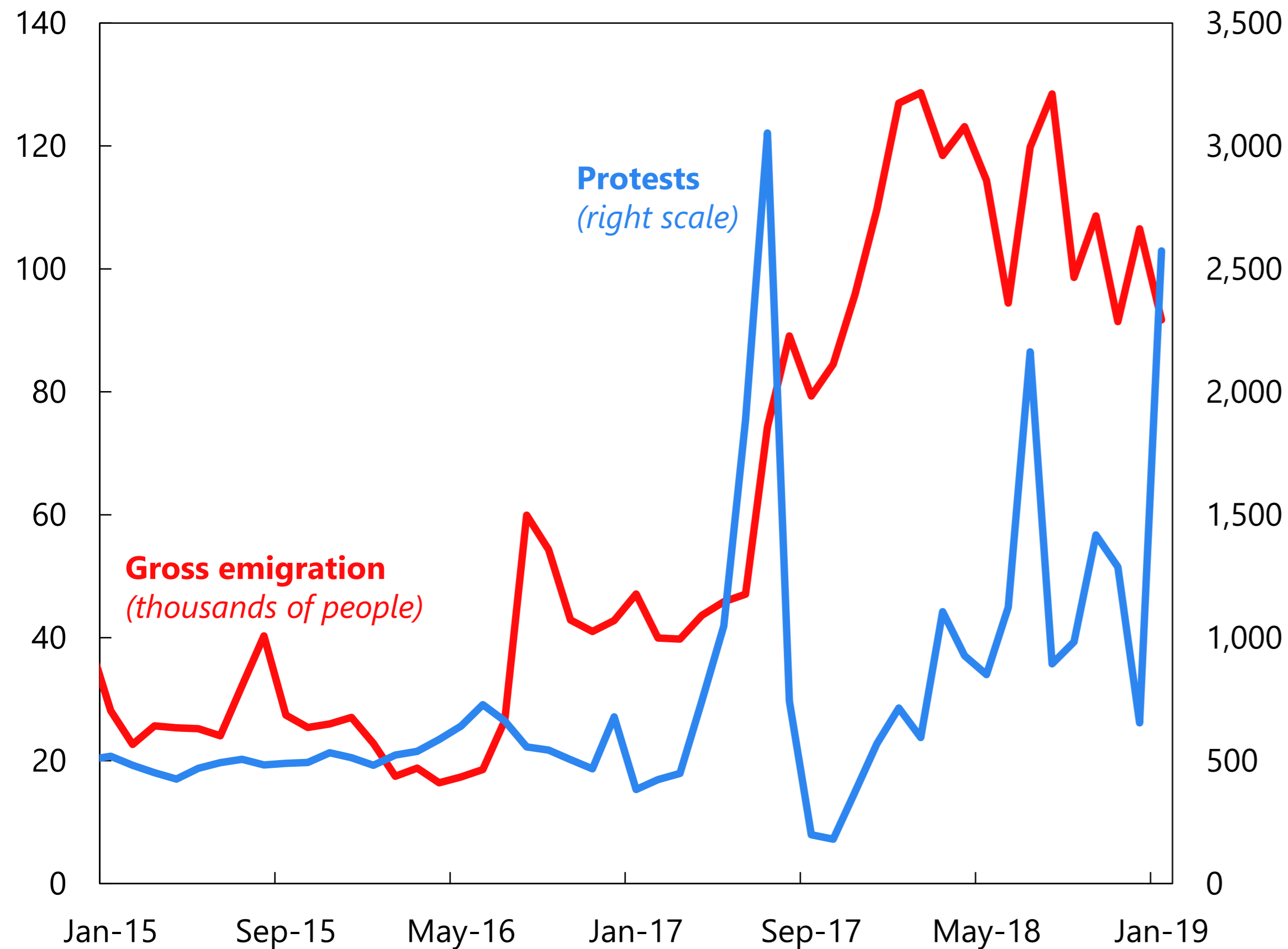
Note: Included countries that have cumulative real GDP drop of at least -30% during 5 years plus selected countries that experienced hyperinflation. The selected year represents the period when the cumulative 5-year drop was the largest.



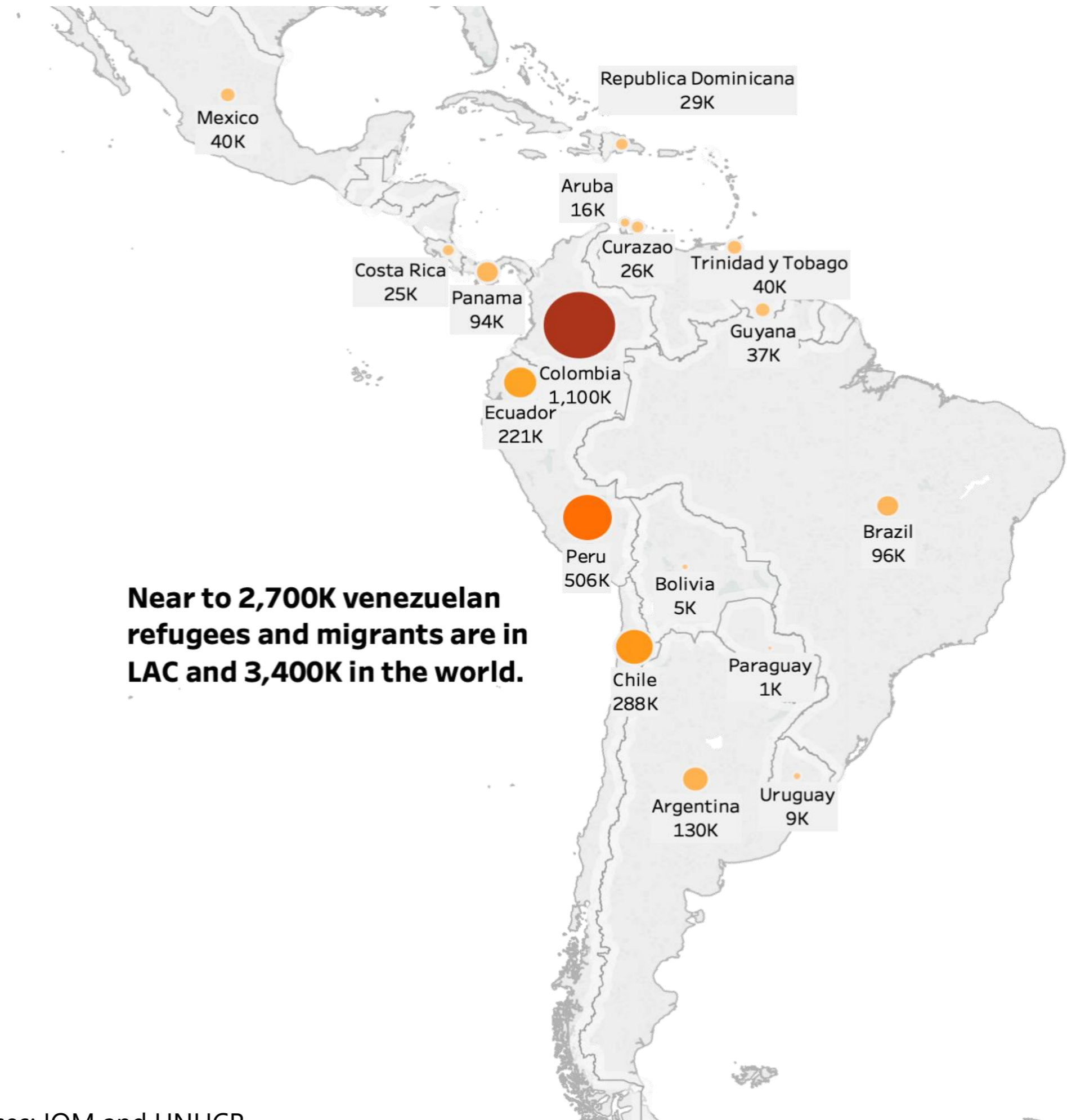
Venezuela: Outward migration has surged

Outward migration has accelerated since mid 2017...

... throughout the region. More than 3 million people have emigrated in recent years (U.N), about 10 percent of the population



Source: Migración Colombia, Observatorio de conflictos.



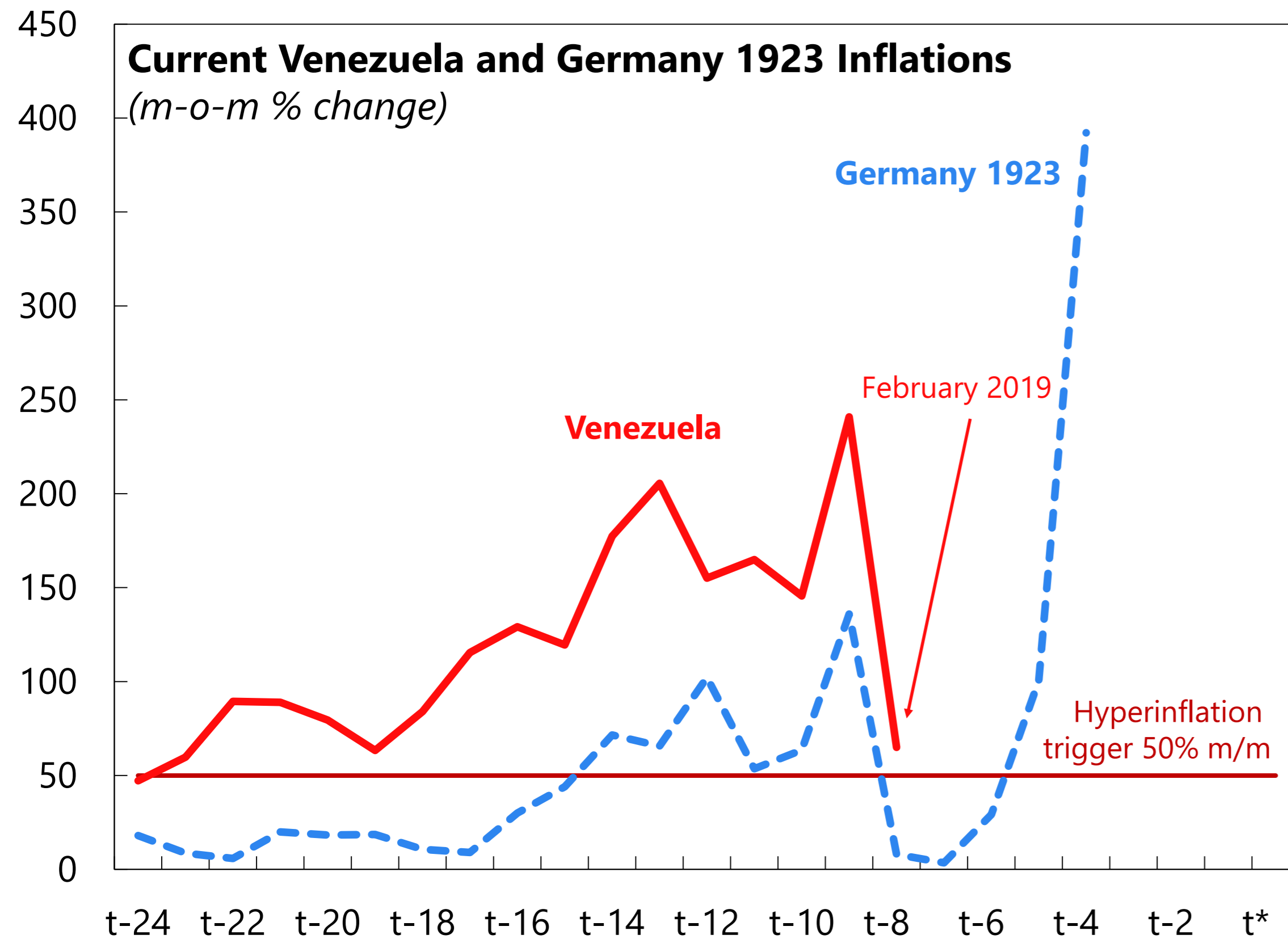
Near to 2,700K venezuelan refugees and migrants are in LAC and 3,400K in the world.

Sources: IOM and UNHCR.



Venezuela: Hyperinflation has taken hold

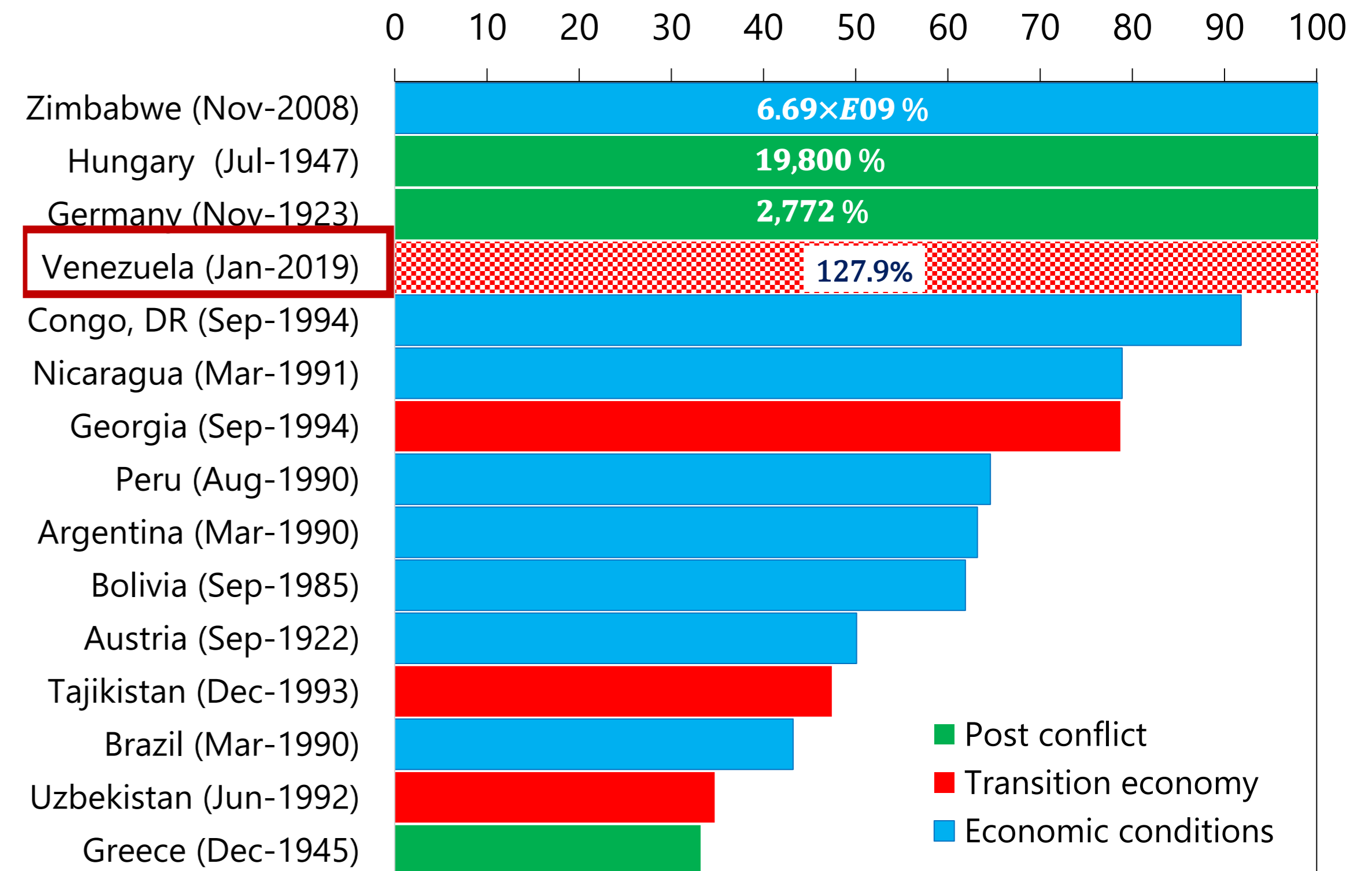
Venezuelan inflation could be similar to German inflation in 1923



Sources: National authorities; and IMF staff estimates.

Average Monthly Inflation During Hyperinflation

(except for Zimbabwe, Hungary, Germany, and Venezuela that exceed 100 percent)



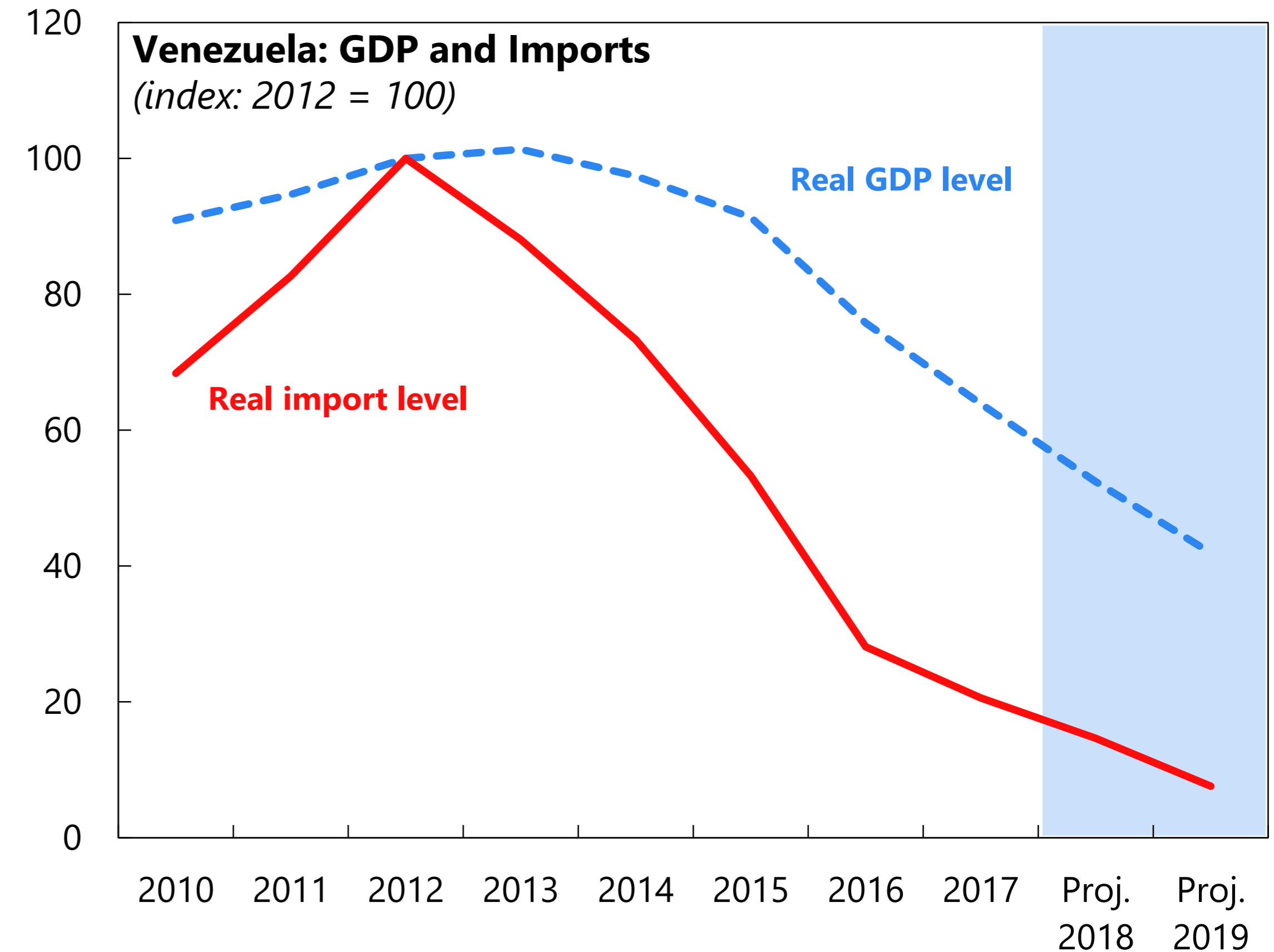
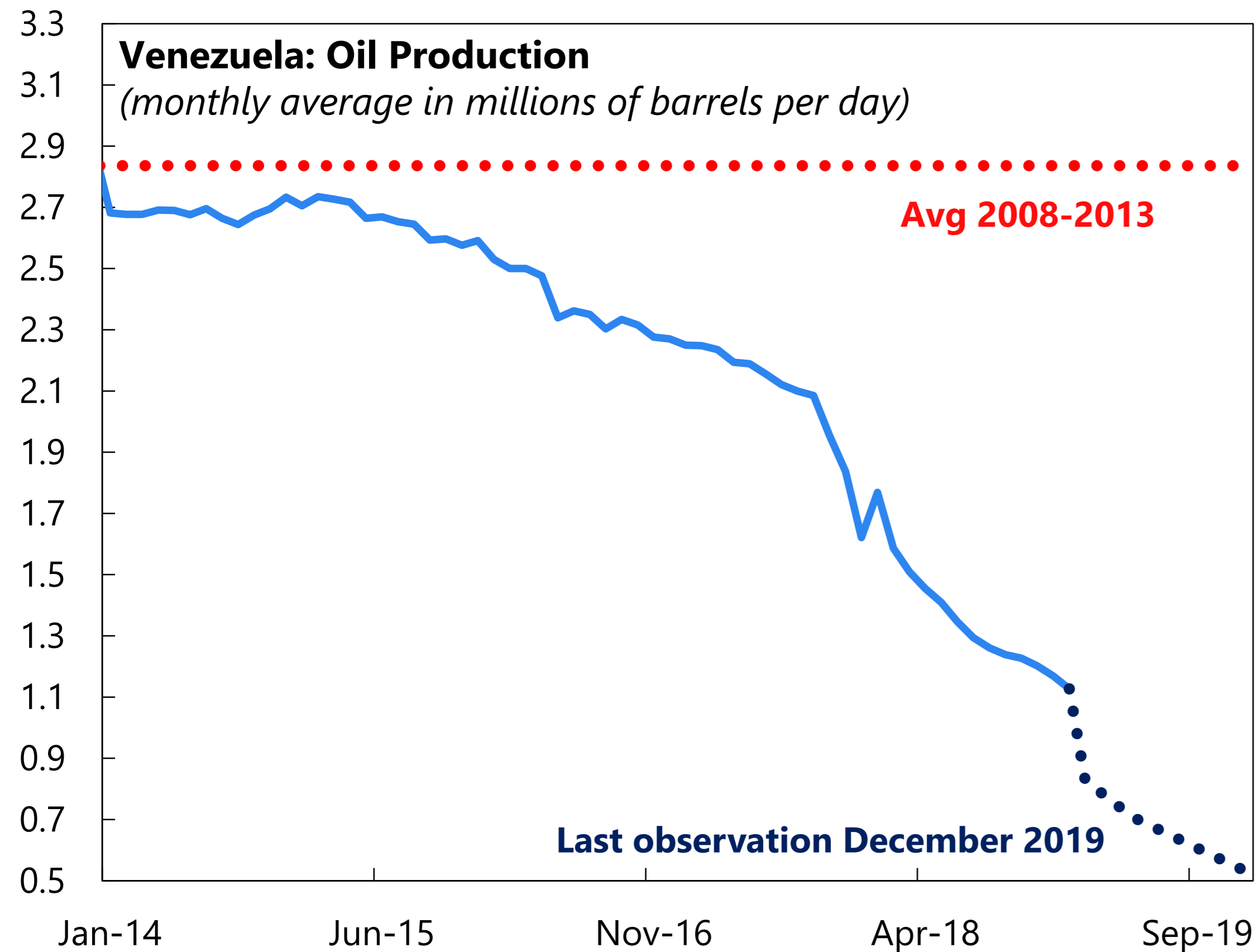
Sources: INS – Global indicators; selected academic studies; and IMF staff estimates.



Venezuela: Oil production and imports have plummeted

The collapse in oil production coupled with lack of access to capital markets have reduced FX availability....

... for needed imports of raw material and intermediate goods. Hence, oil and non-oil GDP have collapsed





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